INTERNATIONAL ECONOMIC SANCTIONS: THE BOYCOTTS OF CUBA, ISRAEL, AND RHODESIA

By

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INTRODUCTION

This dissertation studies the economic impact of international economic sanctions upon the target nation(s). Three specific boycotts are investigated: the United States boycott of Cuba, begun in 1960; the Arab boycott of Israel, which was initiated even prior to the legal creation of the state in 1948; and the economic sanctions against Rhodesia, initially implemented by Great Britain in late 1965 and later joined by the United Nations. Boycotts are essentially political acts, representing instruments of foreign policy by which one state tries to bring about a change in the domestic or foreign policies of another. They are, then, a form of coercion which attempts to inflict economic hardship upon the country under sanctions. Boycotts may have varying degrees of economic and political effectiveness. Economic effectiveness refers to the volume of pecuniary damage inflicted, while political effectiveness refers to the degree of desired changes, if any, undertaken by the target state. The thesis to be investigated is the proposition that economic sanctions will cause sufficient disruptions of a total economy to bring about the political changes desired by the boycott initiators.

Boycotts: Theoretical Background

For over two hundred years the gains and benefits of international trade have occupied a position of importance in both the economic policy of governments and the theory of academicians. While exceptions have been occasionally noted, the advantages accruing from the international division of labor and specialization are recognized to have not only an expansionary effect upon aggregate world product, but also upon the national dividend of each participating nation as well. Over the years, trade theory has been refined and sophisticated, from absolute advantage to comparative advantage, from two-country, two-commodity trade to multi-lateral, multi-product exchange. Emphasis has shifted from the older concern with the direction of trade to a more recent preoccupation with the volume of international transactions. The essence of the theory, however, seems basically unchanged.[1] Via specialization and international trade, a nation can avail itself of greater amounts of goods and services than it could by itself produce. In short, a "country's access to a foreign market has a real income effect that is essentially the same as if there had been an outward shift in its production frontier."[2]

The benefits from trade basically derive from differing comparative costs, which result from a variety of causes, the chief of which

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[1] See R. Harrod, International Economics, rev. ed., Chicago: University of Chicago Press, 1958, p. 3.

[2] Gerald M. Meier, International Trade and Development, New York: Harper and Row, 1963, p. 18.

are unequal factor endowments, differing technologies, and diverse utility and preference functions. The gains from trade will tend to be greater, (1) the more domestic opportunity costs differ from corresponding production costs in other countries, (2) the smaller any one country is relative to its trading partners, (3) the easier it is to gain access to foreign markets, and, finally, (4) the smaller the slope of the cost gradients both at home and abroad.[3]

These benefits should perhaps be elaborated upon briefly. Inasmuch as trade is beneficial only to the extent that domestic cost ratios differ from the corresponding foreign ratios, it is logical that the greater the difference between the two, the greater the scope for gain via specialization and trade. It will be economic for a nation to import those goods for which it possesses a comparative disadvantage and export those for which it has a comparative advantage. To the extent that prices accurately reflect relative scarcities, the greater the difference between world-wide prices and a country's own prices in the absence of trade, the more the benefit to be had.[4] Along the same line of thinking, it can be demonstrated that trade tends to dissipate when the domestic price ratios (opportunity costs) become equal to foreign ratios. In short, as domestic and foreign prices are brought into line, the incremental gains from trade diminish. Since cost ratios are not usually constant, but tend to vary with the volume of production and

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[3] Harrod, pp. 12-38.

[4] See Murray Kemp, "The Gain from International Trade," Economic Journal, December, 1962, p. 808.

degree of specialization, the more rapidly both domestic and foreign ratios tend to change (the steeper the cost gradients), the sooner they equalize. Conversely, the more slowly they come together, the greater the scope for advantageous exchange.

It can also be seen that the benefits of trade are greater, the larger the rest of the world is relative to the nation in question. This is true because large nations tend to have greater populations and other resource endowments which allow for much specialization according to comparative advantage within their own borders. Small nations, on the other hand, cannot carry the division of labor to as great heights domestically. Thus, the smaller the nation, the greater the potential benefits from international trade. A large population, then, has a trade-reducing effect. Nevertheless, the volume of trade tends to be greatest between the larger, industrially advanced nations rather than among the less developed countries or between advanced states and economically backward ones. This is true because the trade-reducing effect is more than offset by the income effect which such size permits. The expansion of economic opportunities made possible by (and concomitant with) growth and a large national output open very great opportunities for mutually advantageous exchange. Recent work indicates that the volume of trade between two regions tends to be directly proportional to the national income of the areas and inversely proportional to the distance between them.[5] Finally, the easier it is to gain access

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[5] See H. Linneman, An Econometric Study of International Trade Flows, Amsterdam: North Holland Publishing Company, 1966. Of course, distance in statute miles is not as important as the economic cost of

to foreign markets--either through a reduction in natural barriers via transport or selling innovations or through a reduction in artificial barriers such as tariffs and quotas--the greater the sphere of gainful trade.

In addition to these important reallocation effects, which are quantifiable conceptually, although difficult to arrive at empirically, there are other beneficial results from free international trade, these being more of a qualitative nature, but nontheless significant in their impact upon real income. Following Adam Smith's famous dictum that "the division of labor is limited by the extent of the market" it can be seen that access to foreign markets, by enlarging product demand, can allow the use of large-scale economies and new technology. Mass production techniques would be uneconomic if an unsaleable surplus is the only result. Disposal of high volume, low cost output via international as well as domestic trade has a positive income effect upon both producers and consumers.

Trade also serves to link markets together, thereby providing increased knowledge of conditions, qualities, and prices--all of which tend to make for a more efficient allocation of resources. Beyond this, diversified trade "serves as a kind of safety valve or shock absorber, allowing random economic disturbances in different places partially to offset each other."[6] Perhaps most important, it helps instill dynamism

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transportation. A relatively short geographical distance may be economically "long" if the terrain is difficult to traverse or there are other encumberances entailing added economic expense.

[6]Leland Yeager and David Tuerck, Trade Policy and the Price System, Scranton: International Textbook Company, 1966, p. 62.

and vigor which act as spurs to efficiency and innovation. In the developing areas the foreign trade sector can act as a springboard from which entrepreneurial abilities and functions spread into the broader domestic economy. Moreover, the added competition from foreign producers penalizes inefficiency and stimulates innovation in all economies, advanced or developing. Lastly, but perhaps most importantly for new nations, trade tends to produce a "demonstration effect" which can raise national effort, attitude, and output by stimulating the level of national aspirations and piquing a desire for achievement.[7]

Participation in international trade, then, has significant economic effects. Both the reallocations which would result from a static long-run equilibrium situation and the output effects of the dynamic aspects of trade result in increases in real income. The necessary conditions for static long-run equilibrium under completely free international trade are twofold: in the product market, equality of prices (ignoring transport and marketing costs) of all economic goods of a given quality in all countries, and in the factor market, the earnings of the agents of production for supplying services of a given quality must be the same. Fulfillment of these two conditions would result in the real cost ratios in each nation being equal to each other and to the price ratios of the goods produced. Such an equilibrium

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[7]For enlightening account of the relationship between achievement motivation and economic development, see David McClelland, The Achieving Society, Princeton: Van Nostrand, 1961. It should be noted that political stability is a condition for economic development. To the extent that growing aspirations are unmatched by (or outstrip) accomplishments, rising frustrations result, possibly leading to political instability which retards economic growth.

would create an optimum distribution of the factors of production and a maximum world output. That the world falls short of these conditions is an obvious truism. Due to ignorance, immobilities and rigidities, and a host of other factors, some contrived and others natural, the full benefits of international trade are never realized.

Nevertheless, from the point of view of a particular nation, imperfections in the outside world must be taken as given data. "Trade offers a country worthwhile opportunities regardless of why world-market prices differ (actually or virtually) from its own."[8] As Harrod has suggested,

> Since we are considering . . . how any particular country can, taking the conditions in the outer world as given, best utilize her resources, the question of the conformity between the foreign cost structure and the world price structure becomes irrelevant. The best that a particular country can do for herself is to make her own price structure correspond to her own cost structure and to enter into such foreign trade as is consistent with that condition and with the prevailing world price structure.[9]

This brief survey reaffirms the fact that the benefits from international trade are real and substantial. Although there exists no general agreement among economists concerning the distribution of the gains from trade--in fact, great controversy yet prevails--it must be assumed that in a situation of voluntary exchange all parties do receive (or expect to receive) some benefit. "The logic of this case is beyond criticism . . . ,"[10] although this does not necessarily imply that all trade has historically been voluntary, and therefore, beneficial.

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[8]Yeager and Tuerck, p. 37.

[9]Harrod, p. 43.

[10]Jan Pen, A Primer On International Trade, New York: Vintage Books, 1967, p. 38.

This dissertation is a study of international economic sanctions--penalties which are intended to inflict economic losses upon the country under sanctions. An international economic boycott represents a trade embargo by one or a group of nations upon some other country. Secondary boycotts may also be involved. Inasmuch as access to foreign markets has a positive real income effect, an embargo or boycott which effectively denies access to such markets may result in significant economic costs and dislocations for the recipient state (and, perhaps, to the boycotting nation as well). Three contemporary boycotts will be studied, each representing a differing point on the spectrum of boycott possibilities. The United States embargo of Cuba represents economic sanctions by one nation to another closely tied to it both historically and economically. The Arab boycott of Israel can be seen as an attempt at the economic isolation of a country by all surrounding neighbors. Finally, the boycott of Rhodesia by the United Nations represents an attempt at the total economic isolation of a nation by the majority of countries on the globe, several of whom have had very close economic and political ties with Rhodesia.

This study will examine the economic impact of boycotts upon the target nations, ignoring in general the many actual or potential costs which the enforcing states may also experience. As such, it will concentrate upon boycott implementation and enforcement and upon patterns of external trade, domestic development, and real income for the purpose of determining if the resulting economic dislocations will be substantial enough for political change to ensue. It should also be noted that for the boycotted nation economic sanctions serve as a kind of involuntary

protection. To the extent that there exists infant industry potential within that country, the boycott may produce economic benefits which can partially, or perhaps even wholly, offset the cost of the embargo. This possibility will also be investigated.

Historical and Political Aspects

The enforced economic isolation of a nation has long been recognized as significant in military warfare. Naval blockades were used with success during the European wars of the eighteenth and nineteenth centuries.[11] On the other hand, the tradition of boycotting[12] has occupied a minor role historically. One early example of a boycott in American history derives from the colonial period during which time many citizens of the American colonies refused to purchase certain British goods as a political protest. Another occurred under the Jefferson administration when an embargo against Britain was implemented. Remer enumerates at least nine separate boycotts by Chinese nationals against the products and trade activities of other nations, although he suggests there probably have been more.[13] In addition, economic sanctions as a

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[11] For a concise account of the economic impact of blockades, see Francois Crouzet, "Wars, Blockades and Economic Change in Europe, 1797-1815," *Journal of Economic History*, December, 1964, pp. 567-588.

[12] The term boycott is used in this dissertation to refer only to international economic boycotts and not to the use of boycotts in strictly domestic affairs. Although economic sanctions are sometimes considered official acts, with boycotts being considered unofficial undertakings by private parties, the terms sanction, boycott, and embargo will be used interchangeably.

[13] C. F. Remer, *A Study of Chinese Boycotts*, Baltimore: Johns Hopkins Press, 1933.

coercive device to be used in lieu of military maneuvers were written explicitly into the Covenant of the League of Nations during the earlier portion of the present century. Finally, Article 41 of the United Nations Charter mentions the possibility of trade embargoes.

It would, perhaps, be of some interest to note the origins of the term "boycott." In a book entitled Captain Boycott Irish author Philip Rooney in 1880 described a time in the nineteenth century when absentee English landlords controlled much property in Ireland, demanding exorbitant rents from the tenant farmers. Captain Charles Boycott was an agent representing an absentee owner for the purpose of collecting these rents. Boycott refused to accept the payments made by the farmers, declaring them insufficient and evicting many tenants. In retaliation the people of the community pursued a policy of total isolation, both economically and socially, against the rent-collector. Despite Boycott's efforts at recruiting imported labor and several other measures his total isolation proved too much. In the end he was forced to return to England.

"The natural starting point in any study of economic sanctions is . . . Article 16 of the League Covenant."[14] The essence of the article was that in certain circumstances the members of the League of Nations were to cease all economic intercourse with a country committing aggression. These sanctions were obligatory and were intended to prevent aggression in advance or to make it doubly difficult once begun.

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[14] J. F. Dulles, "Practable Sanctions," in Evans Clark, editor, Boycotts and Peace: Report by the Committee on Economic Sanctions, New York: Harper and Brothers, 1932, p. 18. Dulles was here referring to collective sanctions rather than individual.

Concerning their potential usefulness, the Report by the Committee on Economic Sanctions optimistically stated:

> The great advantage of economic sanctions is that on one hand they can be very potent, while on the other hand, they do not involve that resort to force and violence which is repugnant to our objective of peace. If any machinery can be set up to ensure that nations comply with their covenant to renounce war, such machinery must be sought primarly in the economic sphere.[15]

Unfortunately, the implementation of Article 16 was fraught with difficulties capable of frustrating its designs. Two possibilities merit note. First, Article 16 demanded complete and total nonintercourse, a measure whose incidence would fall unevenly upon the boycotting states, some of whom might be so economically tied to the aggressor nation as to make complete nonintercourse an act of economic suicide, This possibility, therefore, acted as a deterent to the Article's being invoked and a practical obstacle to full compliance, if invoked.

In addition, for humanitarian reasons it was doubted that the actual implementation of a total embargo, one embracing foods, medicines and other commodities vital to the civilian population and those unconnected with military aggression, would be acceptable to world opinion. As one writer has suggested, "For effectiveness, and for moral standing, a really successful food embargo ranks well in advance of torpedoing hospital ships and is somewhere near the class of gassing maternity hospitals."[16] These stern measures, however, have been defended on the basis of their preventive capabilities. Such a "complete and immediate

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[15] Ibid., p. 21.

[16] Edwin C. Eckel, "General Conclusions and Recommendations," in Clark, p. 257.

severance of all relations may appear at first . . . to be too severe. . . . . But it should not be forgotten that the aggressor is fully aware in advance of the consequences of its act."[17] What is thus apparent is that for economic sanctions to be successful in preventing aggression, the aggressor state must feel certain that a boycott will actually be implemented and that it will be total rather than partial. Since the full economic sanctions were never invoked, it is difficult to test the hypothesis that world opinion would not tolerate a complete embargo.

Additional, and more significant weaknesses of League sanctions, each of a very practical nature, merit discussion. Each member state of the League had the right to decide for itself whether or not conditions had come to the point where League sanctions should be invoked. The strong likelihood of differing interpretations concerning whether such a situation had actually arisen would have been likely to result in partial and isolated attempts at boycotts, none of which would be sufficient to stop aggression. In addition, embargoes harm the enforcing states. Finally, the fact that neither the Soviet Union nor the United States were members of the League left the possibility open for the frustration of League boycotts via trade with these two nations.

Brief mention should be given to the two instances in which the League of Nations did invoke Article 16. These concerned Italy[18] and Japan. On October 4, 1935, Mussolini's forces invaded Ethiopia after a

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[17] J. Whitton and M. Gonsiorowski, "Sanctions," in Clark, p. 95.

[18] For an interesting account of the sanctions against Italy, see Herbert Feis, Three International Episodes; Seen from E. A., New York: W. W. Norton and Company, 1966, pp. 193-294.

skirmish between Italian and Ethiopian forces in an isolated but politically contested oasis in Eritrea. This action brought a storm of protest from the other nations of Europe. The League Council met and eventually declared that economic and financial sanctions be invoked.

These sanctions proved unsuccessful both in preventing the hostilities and in bringing the aggression to a quick end. Mussolini had been telling the Italian people for a number of years that their nation was surrounded by other states bent on destroying Italy. The embargo provided a justification for an austerity campaign in which food and clothing were carefully rationed. Thus, domestic economizing in part offset the effect of the boycott. At the same time, the actual embargo was not total, but partial. Strangely, perhaps the two most vital items to a war machine, oil and coal, were exempted from the embargo; however, the fact that both England and France were large producers of coal while British colonies produced oil, makes the decision of the Council, of which both countries were members, more readily explainable. The uneven effect of the boycott upon the implementing nations is also brought to light by Britain's refusal to deny access to the Suez Canal to Italy, Britain having a good deal to lose financially by such a move. There were, of course, other important considerations which were non-economic in character.

Finally, other nations defied the sanctions. Germany seemed especially eager to provide supplies to Italy, probably because Italian involvement in an African war meant that Austria was less threatened by Italy and a more easy prey for Germany. Russia, too, carried on substantial trade with the Italians. Thus, due to open relations with

Germany, Russia, and the United States and barely camouflaged trade with France and England, Italy was able to successfully defy League economic sanctions.

In 1938 sanctions were imposed upon Japan for bombing Manchuria. By this time, however, the weaknesses and inability of League boycott efforts were so patent, the sanctions were almost immediately rescinded when the British suggested that the League merely express its sympathy to Manchuria and drop the entire matter. The ineffectiveness of League actions in dealing with Italy seemed to mark the beginning of the end for Woodrow Wilson's dream although it may have been destined to failure almost from its inception.

It must be stressed at this point that the imposition of an international boycott is a political act[19] utilizing economic weapons as the coercive force. By reducing real income and the level of living in the target nation boycotts are designed to bring pressures upon the government for a change in its policies, or for a change in the form of government or its leadership.

A successful boycott is one which attains the ends desired. A boycott can, however, be effective without being successful. Effectiveness refers to the degree of economic damage inflicted, whereas success, to the attainment of certain goals. Boycotts may be quite effective in terms of creating economic dislocations and reducing real incomes,

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[19]While this is generally the case, it is subject to exceptions, such as the boycotts of Japanese goods before World War II, which protested "unfair competition" rather than specific political positions.

but they may nonetheless be unsuccessful in fulfilling the political ends sought. This tends to suggest that while the threat of economic sanctions perhaps possesses some preventive capabilities, the actual implementation of embargoes may nevertheless yield little or no change in the unacceptable position of the boycotted state. In short, economic effectiveness does not guarantee political success.

CHAPTER II

CUBA

Historical Background

Cuba, often called the "Pearl of the Antilles," is the largest island in the Caribbean. Its overall length is 760 miles and its average width, 25 miles. The coast line, approximately 2,000 miles long, contains many natural harbors.[1] Discovered in 1492 by Christopher Columbus, the island remained a Spanish possession until 1899. Cuba's history is most conveniently divided into three periods: the colonial period (1492-1902), the republic (1902-1958), and socialist Cuba (1959 to the present). While only a brief survey of Cuban history will be provided in the following pages, it is important to note that Cuba's present political and economic arrangements emanate in large measure as a reaction to socio-economic and political conditions deeply rooted in Cuba's past.

Standing in sharp distinction to the other Latin American republics, many of which became independent in the early portions of the 19th century, Cuba did not become a sovereign nation until the first years of the twentieth century. From the time of its discovery until

[1] American Chamber of Commerce, Cuba: Facts and Figures, Havana, April, 1955, p. 2.

the year 1899, Cuba was ruled by Spain. During the almost four centuries of Spanish rule the original inhabitants became extinct, African Negroes were imported as slaves, and relatively large numbers of immigrants, particularly of Spanish origin, settled the island. "According to the 1953 census, 73 percent of the population are of unmixed European ancestry, 26 percent are Negroes and mestizos, and 1 percent are Oriental."[2]

"While building its large empire in America, Spain paid scant attention to Cuba. . . ."[3] This was mainly due to the mercantilist policies guiding Spain at that time, policies which directed the greatest energies of the Spanish government toward those Latin American areas abundant with precious metals. After Cuba's scant gold deposits were exhausted, economic activities declined into a dormant stage and a large amount of white emigration occurred. In spite of the commercial activities of the port of Havana, Cuba's economic development was almost nonexistent and its economic status was that of a poor second to such West Indian islands as Haiti, Jamaica, or Barbados. However, toward the end of the eighteenth century, the increased production of sugar, coffee, and tobacco coupled with the growing significance of the Havana port raised Cuba's importance to Spain. The pace of economic activities began to climb. Development had been stimulated by the temporary English occupation of Havana, which began in 1762 as a result of a war between

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[2] R. J. Alexander and G. Convers, "Cuba," Collier's Encyclopedia, Vol. VII, New York: Crowell-Collier Publishing Company, 1965, p. 535.

[3] Cuban Economic Research Project, A Study on Cuba, Miami: University of Miami Press, 1965, p. 2.

Spain and England. As opposed to the previous rigid control by Spain the English allowed a limited degree of commercial liberty. Another important factor was the enlightened policy of the Spanish monarch, Charles III, which began to take effect by the middle 1760's. "These events . . . served to break the old traditional molds of the colonial regime, the chief characteristic of which, until then, had been monopoly over internal and external trade."[4] Nevertheless,

> It was not until after the eighteenth century that the foundation for the future economic structure of the island was laid. This foundation was the increase in the importance of sugar production which soon became its basic economic activity.[5]

As control of the growing sugar industry increasingly passed from Cuban ownership into Spanish hands and as the system of latifundia developed, there emerged the beginnings of a struggle for independence. This struggle emanated primarily from political oppression by the colonial power, but in addition had important economic underpinnings and corollaries. The struggle for independence appears as perhaps the overriding factor of Cuban history. Its roots lie in Cuba's colonial status under Spain's domination, in Cuba's geographical proximity and economic ties to the United States, and lastly, in the special political relationship between Cuba and the United States which had evolved since the Spanish-American War.

Successful revolts against Spanish rule in Mexico and South America coupled with agitation over the slave trade sparked increasing unrest in Cuba in the first quarter of the nineteenth century. "To

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[4] Ibid.

[5] Ibid.

strengthen its hold, Spain in 1825 placed the entire island under martial law, suppressed all civil rights . . . and placed many restrictions on foreign trade."[6] These actions, however, only heightened the basic desire to end foreign domination. Rebellions and political opposition mounted.

The role of the United States in the Cuban struggle for independence dates to the early years of the 1800's. The American position at that time regarding Cuba's separation from Spain was rather indecisive.

> This indecision was influenced by the desire of some Americans to annex an island so close to its own shores, and by the fear of others that Cuba, once liberated from Spain, might come under the influence of another European power.[7]

The indecisiveness of the United States position proved inimical to initial Cuban efforts toward independence. Some Cubans themselves, in their fervor to be free of Spain, advocated annexation by the United States. Most Cubans, however, seemed to prefer independence to annexation, many having hopes that America might lend its support to their efforts.

As time passed, a combination of the Manifest Destiny philosophy and the idea that Cuba represented additional slave territory spawned a growing American movement to annex the island. James Knox Polk, the United States president, proposed in 1848 to buy Cuba from Spain for \$100 million.[8] This offer was rejected. Nevertheless, the annexation

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[6] Alexander and Convers, p. 541.

[7] A Study on Cuba, p. 3.

[8] S. Morison, H. Commager, and W. Leuchtenburg, The Growth of the American Republic, 6th ed., New York: Oxford University Press, 1969, p. 574.

movement gained momentum, culminating in the issuance of the Ostend Manifesto. This was a pompous document, perhaps representing the nadir of American diplomacy, in which it was stated that Spain should either sell Cuba or expect to have it taken from her. Concerning this document and the general desire in America for additional territory, historians have written the following:

> This agitation reached a ludicrous climax in 1854 when the United States ministers to Great Britain, France, and Spain met in the stimulating atmosphere of Ostend, Belgium, and solemnly announced to the world that the time had come for Spain to sell Cuba to the United States or, failing Spanish acquiescence, for the United States to take the island.[9]

Cuba's efforts toward independence from Spain intensified, while at the same time a latent fear of American suzerainty developed. In 1868, the bloody Ten Year War began. Fought mainly in the eastern provinces of Cuba, the war failed to gain Cuban independence. More than once the United States almost became involved. Despite being unsuccessful, the struggle "had the effect of strengthening the national consciousness, the patriotic tradition, and the faith of the Cubans in their own destiny."[10] The war ended in 1878, partly due to promises by Spain to abolish slavery, grant amnesties, and initiate political reform. During the next seventeen years a precarious peace, interrupted by revolts in 1879, 1883, and 1885, was maintained.

In 1895, under the inspiration of the patriot, Jose Marti, a poet and warrior, Cuba's last war for independence from Spain began. In 1896 a new Spanish governor, "Butcher" Weyler, was appointed. Weyler

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[9] J. Rae and T. Mahoney, _The United States in World History_, New York: McGraw-Hill Book Company, 1955, p. 308.

[10] _A Study on Cuba_, p. 3.

conducted a ruthless campaign against the insurrection, employing methods to which the United States government issued vigorous protests. In 1898, Weyler was replaced and partial home rule granted. These moves, however, were too late and the revolt continued.

In the United States, President McKinley, like several of his predecessors, had attempted to avoid giving official belligerent status to the Cuban rebellion. However, increasing indignation by Americans over Spanish methods and tactics, disappointment with the failure to materialize of many promised Spanish reforms, and pressures by business interests and investors harmed by the fighting moved the American government increasingly to the side of the rebels. Toward the end of January, 1898, in the midst of tense and uncertain relations between Spain and the United States, it was decided that the U. S. battleship Maine should make a courtesy visit to Havana. On February 15, the Maine was mysteriously blown up in the Havana harbor, bringing the full fury of the American public against Spain. During the ensuing two months, agitation arose in favor of an independent Cuba. President McKinley's late March message to Congress was directed at averting war. However, it was not well received. On April 18, 1898, a Joint Resolution of Congress, later approved by the President, recognized the independence of Cuba and demanded that Spain renounce its control. An ultimatum was sent to Spain, which then severed diplomatic relations with the United States. This led to a declaration of war by Congress.

The Spanish-American War, fought in Cuba, Puerto Rico, and the Philippines, was short and one-sided. The American victory was decisive. The war was officially concluded by the Treaty of Paris, signed in

December, 1898. To their great disappointment, the treaty did not recognize the belligerency of the Cubans, with whom Spain refused to deal. Spain ceded all rights in Cuba to the United States and withdrew her armies; American troops remained and a military government was established. Thus, rather than independence, Cuba came under military occupation and political control of her great neighbor to the north. Nevertheless, true independence seemed closer than ever due to the Teller Resolution in which Congress had declared that the United States would not annex Cuba, but would instead allow the Cubans to govern themselves.

It should, perhaps, be noted that the Spanish-American War marked the emergence of the United States as a world power, with possessions in the Caribbean (Puerto Rico in addition to Cuba) and the Pacific (Guam and the Phillipines). This war may be viewed in part as a continuation of the Manifest Destiny philosophy. Since no further territorial acquisitions on the continent were possible, pressures for overseas "adventurism" developed. Thus, in addition to strong American sympathies for the Cuban people, there were interests in the United States which geared for war almost with gusto. The dangers of a policy of expansionism were a plank in the platform of William Jennings Bryan when he ran against McKinley in the election of 1900. Bryan's issue, however, was that imperialism was likely to lead to domestic despotism. McKinley, nevertheless, was swept into office, giving endorsement to the expansionist policies. Although many Latin American nations had often expressed some apprehension concerning American policies and practices, the imperialism issue did not become full blown in the Western Hemisphere

until the advent of Castro. Thus, the dangers which Bryan had pointed out were very real, although he perhaps misplaced them in citing the domestic scene rather than the international in which they would be most felt.

During the period of American military intervention in Cuba (1898-1902), much progress was made on a number of fronts. American forces aided in providing food, repairing roads, buildings, general reconstruction, reorganizing the administrative sector, educational system, and sanitary conditions. The chief achievement in the latter field was the conquering of yellow fever. "In the economic sphere, however, the traditional vices of colonialism, latifundism, and monoculture became more acute,"[11] this being the case despite substantial improvements in public works and social overhead capital. Economic diversification, particularly in agriculture, and some kind of land reform were two vital areas in which steps might have been taken to put Cuba on a sounder long-run basic economic structure. Whether the United States had either the capacity or the right to implement such policies is, of course, difficult to determine.

In 1900 Cuba adopted a constitution patterned after that of the United States. In 1901 the Platt Amendment was imposed upon Cuba by the United States Congress, thereby severely limiting Cuba's sovereignty even after it began self-rule. The three major points in the Platt Amendment were as follows:

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[11] A Study of Cuba, p. xvi.

1. Cuba was not allowed to enter into any foreign treaties which might threaten its independence.
2. Cuba granted the United States the right to establish naval bases on her soil.
3. The United States reserved the right to intervene in internal Cuban affairs for the purpose of protecting life and property or Cuba's independence.

Cuba, in short, became a virtual protectorate of the United States. Given the above constraints, the American military government relinquished power to an elected Cuban administration in 1902. Later that year preferential tariff rates were concluded for trade between both countries. It must be stressed that the Platt Amendment left a permanent imprint, perhaps a permanent dislike is more descriptive, for the United States in the minds of many Cuban patriots. Having secured their long sought freedom from Spain, Cuba became a freer nation, but not the master of its own destiny. In short, independence without sovereignty proved a bitter pill.

The Palma regime, the Republic of Cuba's first government, experienced many difficulties. Corruption--a legacy from Spain's administration--was rife, factional disputes arose, and violence erupted. When an armed revolt occurred, the Palma government, under the Platt Amendment, requested military intervention by the United States. This intervention began in 1906 and lasted until 1909, during which time an American governor ruled the island. Unfortunately, "Following the

pattern established by the first intervention, this second intervention did not undertake a fundamental re-organization of Cuba's economy."[12]

Beginning in 1909 Cuba again resumed self-government, although intermittent revolts and political upheavals were a recurrent feature of the system. The new administration of William Howard Taft brought a change in the United States policy toward Cuba, a change which resulted in relatively rapid economic and technical advance in Cuba. As is often the case when economic development quickens, the distribution of income became progressively more unequal. In addition, as time wore on the political elite became more and more interested in their own aggrandizement and less concerned with the general welfare.

Although Cuba did not actively participate in World War I, the nation stood with the Allies. Cuban sugar sales, at controlled prices, provided a guaranteed supply. During the 1919-1920 period the production and sale of sugar were returned to free market forces, the result being extraordinarily high prices for sugar. This initiated a brief period of prosperity, "The Dance of the Millions," which, when sugar prices fell, ended in an economic crisis.

Further details concerning Cuban politics through the 1930's and 1940's are not important to this study and can be found elsewhere. The pattern tended to repeat itself. Political instability, corruption, and increasing dominance of American capital and economic interests in the Cuban economy became a way of life. It was not until 1934 that President Roosevelt, as a part of his Good Neighbor Policy, abolished

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[12] _Ibid_., p. xvii.

the Platt Amendment, thereby giving Cuba full political sovereignty. The American naval base at Guantanamo was retained, ironically even into the present with Cuba under a socialist regime, although the base itself has not been used for purposes of intervention.

Batista's rise to power should be noted. In 1933 a general strike paralyzed Cuba, and the Machado regime was deposed by an army coup. Much political unrest and turmoil occurred during the next seven years, the chief political power during the period being an army colonel, Fulgencio Batista. In 1940 Batista was elected President and governed for four years in a more or less democratic manner. He failed at re-election, losing to his arch political enemy, Dr. Ramon Grau San Martin, whom Batista had himself overthrown some ten years earler. Despite increasing corruption, even gangster-like activities, the constitutional continuity of the Republic continued until Batista's second coup, this time just a few weeks before the scheduled Presidential election of 1952. The Batista regime proved both morally and politically corrupt, ruthlessly oppressive, and spawned the seeds of its own destruction. Opposition to Batista seemed to mount geometrically and again an underground struggle for Cuban freedom gained momentum. This movement, of course, culminated in Fidel Castro's rise to power, with Batista fleeing the country.

If we are to make a summary of the relevant factors highlighting Cuban history, we must list the drive for independence, sovereignty, and freedom as most significant. Without question, much of the historic resentment toward Spain was transferred or reappeared and directed itself toward the United States, particularly as a result of the Platt Amendment

and the subsequent interventions. In addition, the continued corruption in government left another imprint upon the minds of many Cubans. To the extent that the United States gave recognition to and supported corrupt and oligarchic regimes, again an antipathy, although often latent, developed toward this country. A good example of this view is the following statement by an American Marxist. Justifiable or not, this feeling is without doubt held by many Latin Americans, not just Cuban socialists.

> The U. S. government was unconcerned about what it meant for the Cuban people to live under a dictatorship. What the U. S. government wanted in Cuba was "order," "tranquility," and "favorable investment climate" required by American business. Whenever these conditions could best be attained by dictatorship the United States supported dictatorship. In Cuba this meant supporting dictatorship most of the time.[13]

Finally, the dominance of American interests as well as the general direction of the economy--one geared to the great state to the north--evoked antagonism. As Alexander and Convers state,

> Foreign firms and individuals--predominantly from the United States--owned sugar mills processing 35 percent of the country's output of cane. U. S. and Canadian banks handled a large part of the financing of the sugar crop. The tourist hotels and gambling casinos were largely built to serve the needs of visiting Americans, and many were owned by U. S. citizens.[14]

The omnipresence of American capital, ownership, products, and direction of exports, coupled with an understandable resentment of the Cuban upper income strata--which appeared as a kind of foreign enclave, more American than Cuban--stood as continual sources of resentment to a people living

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[13] E. Boorstein, The Economic Transformation of Cuba, New York: Monthly Review Press, 1968, p. 10.

[14] Alexander and Convers, p. 538.

in great poverty and experiencing highly unstable employment conditions. Perhaps more importantly, these sources of anti-American feelings left serious imprints on many potential leaders, leaders who found in the writings of Marx and Lenin a gospel which fitted their experience and appealed to their hopes and aspirations.

The Pre-Castro Economy--An Overview

During the 18th century the sugar industry began to experience sustained growth. Table 1 presents the volume of sugar exports for the period 1786-1850. From 1786-1800 the average yearly sugar exports more than doubled. Most of the output increases recorded were the result of the rapid growth in the number of sugar mills rather than productivity advances. By the end of the first quarter of the 1800's, however, new industrial techniques, borrowed particularly from European beet sugar production, were introduced and utilized successfully in Cuba's cane sugar industry. The quality of the sugar produced improved considerably as did the price obtainable. As the table indicates, the average yearly volume of exports increased more than sixteen-fold over the sixty-five-year period.

By the middle 1800's sugar cultivation and milling had begun to dominate the economy. The cultivation of sugar soon became divorced from the industrial processes and a distinct cleavage between agrarian and industrial sectors was evident by 1880, thus creating a dependence by the farmers on the sugar mill owners. During the 1880's the first significant American investments in the Cuban sugar industry were made. One of the problems involved in a sugar monoculture--susceptibility to

TABLE 1

CUBAN SUGAR EXPORTS
1786-1850

Year	Spanish Long Tons: Total	Spanish Long Tons: Yearly Average
1786-1790	60,850	12,170
1791-1795	84,515	16,903
1796-1800	127,977	25,595
1801-1805	165,438	33,087
1806-1810	168,540	33,708
1811-1815	161,760	32,352
1816-1820	201,542	40,304
1821-1825	273,734	54,746
1826-1830	373,177	72,635
1831-1835	440,489	88,097
1836-1840	566,325	113,265
1841-1845	718,063	143,612
1846-1850	1,042,994	208,598

Source: Jacobo de la Pequela, _Diccionario Geográfico, Estadístico, Histórico de la Isla de Cuba_, Madrid: Imprentas del Establecimiento de Mellado y del Banco Industrial y Mercantil, 1863-66, pp. 61-63.

fluctuations--became evident after the middle 1880's when competition from beet-producing areas became acute, forcing many marginal sugar mills to close. Another characteristic of the sugar sector which must be noted was the tendency toward concentration. Technological innovations, most associated with the centrifugal sugar process, changed the structure of the industry, enlarging the size of the optimum productive mill. In addition, primarily via the destruction of hundreds of small mills, the Ten Year War (1868-1878) accelerated the concentration process. This trend, in turn, accentuated the already growing dependence of small farmers upon the mill owners.

In addition to sugar, other industries of significance were tobacco, coffee, cattle, mining, fishing, and distilling of alcohol. Tobacco was once the island's leading crop and export, although by 1895 the value of sugar exports ranked first.[15] Foreign capital, particularly from the United States, was injected into the tobacco industry at the end of the 19th century. By the early 1900's the industry was marked by a high degree of concentration--three groups controlling 60 percent of all exports, the bulk of which went to the growing United States tobacco market. Foreign investors had also shown interest in Cuba's iron ore possibilities and both American and British capital stimulated growth in the industry in the 1880's. Like tobacco, this production was geared almost wholly for support.

To summarize the island's economic development prior to 1900 "it may be considered safe to affirm that Cuba by 1868 had outgrown the

[15]Cuban Economic Research Project, Stages and Problems of Industrial Development in Cuba, Miami: University of Miami, 1965, p. 12.

stage that Rostow calls 'traditional society.'"[16] From the 1820's until early 1890 Cuba enjoyed a prosperity interrupted by few serious downturns except when severe fighting broke out.[17] The sugar industry became the economy's leading sector, introducing technical and industrial advances which spread to related fields. By 1894 "sugar production in that year, 1,054,000 Spanish long tons, represented a per capita production only slightly inferior to that of the crop of 1960. . . . ."[18] Thus, economic advance had been significant. However, political oppression coupled with fluctuations in the sugar market prevented a self-sustaining growth. In addition, military activities and insurrections laid waste to a great amount of accumulated capital. By the end of the nineteenth century, the combination of these and other negative factors had yielded an actual retardation in development. In fact,

> the situation at the end of the Spanish rule could not be compared with that which existed 30 years before when Cuba's economy seemed to be at the point of achieving a firm economic foundation . . . . In conclusion, the Cuba of 1898 seemed to be closer to the phase of the traditional society than to that of the take-off toward higher levels of well-being.[19]

During the period of American occupation (1898-1902) a general reconstruction was undertaken. The military government placed its primary emphasis on the human factor--upgrading health, sanitation, education, and administration. Unfortunately, recovery was hampered by falling sugar prices.

The first quarter of the twentieth century witnessed substantial progress. Population doubled and real income almost tripled, the leading

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[16] A Study on Cuba, p. 141.

[17] Ibid., pp. 139-140.

[18] Ibid., p. 97.

[19] Ibid., p. 144.

sector being an expanding sugar industry. Growth provided more than adequate employment conditions and labor was attracted from other West Indies islands. In addition to sugar, the output of tobacco, cattle, and several other products increased significantly. Nevertheless, it was the sustained sugar expansion throughout the first quarter of the century, and a little beyond, which was most important. Table 2 presents the statistics on Cuban sugar production from 1911-1954. As can be seen, until 1930 sugar output experienced a rather strong and continuous expansion.

This dominance of the sugar industry has imparted to the Cuban economy a large measure of instability resulting from the inherent nature of a one-crop orientation. Fluctuations within the industry were essentially a function of (1) weather and natural conditions, (2) changing world sugar prices, and (3) the seasonal nature of the industry. Oscillations within the sugar sector--especially in their effects upon value of output, employment, and foreign exchange earnings--were carried in a multiplier fashion to the rest of the economy. Thus, the vicissitudes of sugar imparted uncertainty and instability to the entire island's activities. Table 2 indicates the price fluctuations to which sugar was subject. The Dance of the Millions during 1920 represents the classic example of rapid price changes. Prices averaged almost twelve cents per pound in that year, yielding a total value of close to one billion dollars. By 1921 the average price had fallen almost 75 percent and continued to fall into 1923. During the 1930-1935 period sugar averaged barely above one cent per pound.

TABLE 2

CUBAN SUGAR PRODUCTION
1911-1954

Year	Production (Spanish Tons)	Value Including By-products	Average Cuban Price (Cts. per lb. at warehouse)	New York C & F Price Cents per lb.
1911	1,843,451	$100,352,377	3.02	3.031
1912	1,895,984	100,846,688	2.61	2.865
1913	2,428,537	106,078,380	1.95	2.220
1914	2,597,732	153,619,305	2.64	2.830
1915	2,608,914	193,435,104	3.31	3.593
1916	3,034,272	297,018,487	4.37	4.778
1917	3,054,997	316,155,179	4.62	5.217
1918	3,473,184	329,868,754	4.24	5.487
1919	4,009,734	454,478,789	5.06	6.650
1920	3,735,425	999,897,458	11.95	11.350
1921	3,934,297	273,197,276	3.10	3.364
1922	4,033,455	252,978,016	2.80	3.005
1923	3,645,967	411,124,607	5.03	5.278
1924	4,112,699	352,283,528	3.82	4.174
1925	5,189,346	260,380,330	2.24	2.565
1926	4,932,095	245,373,421	2.22	2.565
1927	4,508,600	266,822,258	2.64	2.948
1928	4,041,856	197,733,841	2.18	2.434
1929	5,156,278	198,661,078	1.72	1.993
1930	4,670,973	128,694,648	1.23	1.471
1931	3,120,796	77,595,471	1.11	1.333
1932	2,604,292	41,418,659	0.71	0.930
1933	1,994,238	43,330.803	0.97	1.220
1934	2,255,869	60,132,444	1.19	1.499
1935	2,537,951	89,823,161	1.58	2.331
1936	2,556,937	99,086,422	1.73	2.694
1937	2,974,584	117,203,368	1.759	2.543
1938	2,975,919	96,764,081	1.4515	2.0356
1939	2,723,813	92,018,596	1.508	1.905
1940	2,779,350	84,689,604	1.3603	1.8859
1941	2,406,954	91,337,788	1.694	2.478
1942	3,972,297	224,911,059	2.527	2.988
1943	2,843,077	115,450,507	2.441	2.990
1944	4,174,041	305,000,000	2.466	2.993
1945	3,454,983	252,000,000	2.936	3.422
1946	3,940,728	342,000,000	3.55	4.610
1947	5,677,238	658,000,000	4.80	5.458

TABLE 2 (continued)

Year	Production (Spanish Tons)	Value Including By-products	Average Cuban Price (Cts. per lb. at warehouse)	New York C & F Price Cents per lb.
1948	5,876,761	592,000,000	4.78	5.045
1949	5,073,968	507,839,157	4.345	5.307
1950	5,393,541	572,874,924	4.63	5.432
1951	5,589,232	682,998,709	5.08	5.557
1952	7,011,393	672,069,955	4.129	5.765
1953	5,006,960	458,743,811	3.893	5.787
1954	4,746,156	408,850,795	3.755	5.589

Source: _Cuba: Facts and Figures_, p. 126.

The relative prosperity of the first quarter of the 20th century was brought to a complete halt by the onset of the world depression. The period 1928-1940 was one of the low levels of activity and very depressed conditions. Table 3 presents a summary of major economic indicators. Index numbers using 1940 magnitudes compared to base year (1928) figures reveal that except for population and the public debt, each variable enumerated was substantially lower in 1940 than in 1928.

The period 1940-1958 marked a return to a general prosperity. Significant development took place and per capita income rose substantially. Initially the effect of World War II upon Cuba's economy was negative. Foreign markets were lost, unemployment resulted, and imports were curtailed. However, the increased demand for raw materials by the Allies and the purchase of the 1942 and 1943 sugar crops by the United States paved the way for an economic recovery which by 1944 was well under way.

Significantly, government policy by this time had become somewhat growth oriented and efforts at agricultural diversification and industrialism were undertaken. In addition, until 1952 the constitutional continuity of government was maintained and reasonable political stability achieved. Expansion was aided by the accumulation of foreign currency reserves during the war, an accumulation resulting from heavy purchases by the Allies who were not in turn supplying goods to Cuba due to their preoccupation with the war. The lack of foreign manufactures prior to 1946 coupled with moderate tariff protection gave rise to the establishment of new industries. These, in turn, were aided by the imports made possible in the second half of the 1940's by the

TABLE 3

PERFORMANCE OF CUBAN ECONOMY
1928-1940

Year	Population (Millions)	Sugar Production (Millions of $)	Foreign Trade Exports	Foreign Trade Imports
1928	3,506	$215.6	278,070	490,887
1933	3,961	53.7	84,391	126,752
1940	4,291	110.1	127,288	231,148
		Indices for 1940 (1928 as base)		
	+22.37	-48.93	-54.22	-51.20

Years	Budget Revenues (Thousands)	National Income Total (Millions)	National Income Per Capita	Public Debt (Thousands)
1928	$81,972	$604	$164	89,964
1933	43,986	446	109	167,646
1940	77,559	548	119	198,444
		Indices for 1940 (1928 as base)		
	-5.38	-9.27	-27.64	+120.58

Source: A Study on Cuba, p. 411.

international reserves on hand, reserves which by 1950 had been more or less dissipated. The Korean War brought another brief accumulation of currency reserves which again allowed increased imports. In addition, much of the period witnessed a sugar bonanza in which the expanding sugar industry acted as the leading sector of the economy. Finally, in terms of human capital, Baklanoff reports that "Cuba in the latter nineteen-fifties had already evolved an important professional, technical and managerial middle sector and a substantial pool of skilled workers."[20]

Despite the many advances made, industrial development was still weak, the sugar monoculture imparted instability to the entire economy, productivity levels were quite low and both labor and land were under-utilized. In the following discussion the weaknesses and problems of the economy will be stressed since they are important as factors leading to Castro's take-over and to the orientation of his regime.

Although Cuba's per capita national income generally ranked third or fourth in Latin America during the 1950's, its industrial sector more closely resembled that of the lesser developed Latin American republics rather than the more advanced ones such as Argentina, Brazil, Mexico, Uruguay, or Venzuela. Almost 55 percent of industrial production was concentrated in food, beverages, and tobacco, while the percentage accounted for by metals and machinery was rather low.[21] In terms of

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[20] E. Baklanoff, "The Creative Impact: U. S. Business Investments and Economic Development in Cuba, 1946-1960," Intercollegiate Review, Fall, 1968, p. 27.

[21] Department of Commerce, Joint Publications Research Service, Translation No. 36090, p. 2., "The Industrial Development of Cuba," Cuba Socialista, May 1966.

NOTE: All subsequent references to the Joint Publications Research Service technical translations will be designated JPRS.

rates of growth in industrial production, Cuba ranked again among the lowest (fourteenth out of eighteen) as is indicated by Table 4. Excessive reliance upon sugar had resulted in many bitter experiences during the 20th century and the desire for industrialization was strong. In this area, then, Cuba's performance was disappointing.

Sugar production generally accounted for at least 80 percent of Cuba's exports and roughly one-fourth of the national income. "Economic activity oscillated between the zafra, the grinding period, and the dead season, when unemployment normally reached a level of 20 percent,"[22] or higher. Thus, much rural unemployment and poverty existed. In addition, a substantial disparity in standards of living prevailed between the rural sectors in general and the more prosperous Havana urban area. Therefore, despite Cuba's relatively high mean income, the modal and median incomes were significantly lower, with extreme poverty characteristic of many rural provinces.

In terms of land use, over 50 percent of all cultivated lands was devoted to sugar cane,[23] and land ownership was extremely concentrated. The latifundia situation was accompanied by underutilization of the land; a 1950 study reported that while 60 percent of the total farm land was cultivatible, only slightly over one-third was actually under cultivation.[24] According to the findings of Cuba's Ministry of Foreign Relations, almost 65 percent of all farmers worked on land they did not

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[22] Baklanoff, p. 28.

[23] Andres Bianci, "Agriculture," in Dudley Seers, editor, Cuba: The Economic and Social Revolution, Chapel Hill: University of North Carolina Press, 1964, p. 80.

[24] International Bank for Reconstruction and Development, Report on Cuba, Baltimore: Johns Hopkins Press, 1951, p. 87.

TABLE 4

AVERAGE ANNUAL GROWTH RATES OF INDUSTRIAL PRODUCTION
LATIN AMERICAN NATIONS
1955-1960

Nation	Growth Rate	Rank
Brazil	10.3	1
Mexico	8.1	2
Venezuela	7.7	3
Costa Rica	7.7	3
Panama	6.7	5
El Salvador	6.6	6
Guatemala	6.2	7
Peru	6.1	8
Colombia	6.1	8
Honduras	5.7	10
Ecuador	5.6	11
Nicaragua	3.9	12
Argentina	3.7	13
CUBA	3.4[a]	14
Chile	3.2	15
Paraguay	1.2	16
Uruguay	1.0	17
Bolivia	-4.3	18

[a]Max Nolff, "Industry," in Dudley Seers, editor, Cuba: The Economic and Social Revolution, Chapel Hill: University of North Carolina Press, 1964, p. 288. This figure is for the period 1953-1958.

Source: Economic Commission for Latin America, Economic Survey of Latin America, 1965, Part III, New York: United Nations, 1966, p. 60.

own and the latifundium generally cultivated only 10 percent of their total holdings.[25] This underutilization of both land and labor in a country where so many were desperately poor not only made the masses receptive to revolutionary activities, but created a situation in which such activities seemed bound to appear. Castro and those who rallied around him were particularly sensitive to the plight of Cuba's rural population. The feeling existed that the urban areas, in conjunction with foreign interests, were exploiting the rural masses. This view was best expressed by Castro himself, whose words sound very much like those of John Stuart Mill a century earlier.

> If you came to Havana in those days, you saw a city with many businesses . . . neon signs . . . advertisements . . . automobiles. Naturally, this could have given the impression of a certain prosperity; but what it really signified was that we were spending what small resources were left to us to support an elegant life for a tiny minority . . . . Such an image of prosperity was not true of the interior . . . where the people needed running water, sewers, roads, hospitals, schools . . . and where hundreds of thousands . . . lived in the most horrible social conditions imaginable. You had the paradoxical situation that those who produced the wealth were precisely the ones who least benefited from it. And the ones who spent the wealth did not live in the country side, produced nothing, and lived a life that was soft, leisurely, easy, and proper to the wealthy. We had a wealthy class, but we didn't have a wealthy country.[26]

Despite many past innovations, Cuban sugar operations were highly inefficient. The sugar industry, although the world's leading exporter, ranked only seventeenth in sugar cane yield during the 1950's relative

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[25] Ministry of Foreign Relations, Profile of Cuba, Havana: Government of Cuba, 1966, pp. 117-118.

[26] Lee Lockwood, Castro's Cuba, Cuba's Fidel, New York: Macmillan Company, 1967, pp. 85-86.

to all other major cane producing areas.[27] The use of fertilizers and irrigation techniques was very limited and research almost nonexistent. Thus, the industry seems to have possessed much unrealized potential, again a source of continual irritation to those hopeful for a prosperous Cuba. In terms of the participation of Cuban workers in the income of the sugar sector, as a percentage of total crop value they received 56.5 percent in 1948. This figure dropped steadily until 1953 when it attained the 1948 level, then fell to a little over 50.0 percent, where it tended to remain up through 1958. Thus, the 1958 percentage of total crop value going to the sugar workers (agricultural and industrial) was six points below the 1948 figure and had more or less remained unchanged since 1953.[28] In terms of food output, "domestic production supplied about 70 percent of Cuba's food consumption,"[29] although the potential existed for a much larger figure. Therefore, despite Cuba's progress, the nation still required significant policy changes and enormous economic advance to bring the island a truly general prosperity.

United States Investment in Cuba

Prior to the Spanish-American War United States investments in Cuba had occurred unevenly and in limited volume. They were channeled primarily into sugar and secondarily, into mining. By the middle 1880's the centrifugal sugar process gained in acceptance and the optimum sized

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[27] Bianci, p. 91.

[28] _Stages and Problems of Industrial Development in Cuba_, p. 103.

[29] Baklanoff, p. 27.

fabricating unit for raw sugars increased. Since there was a scarcity of domestic funds to finance new investments, American capital was attracted and flowed into the island. Nevertheless, in 1898 "Americans did not own any considerable part of Cuba, except in the mining industry where they controlled the concessions which had proved to be valuable."[30]

After 1898, Cuba's freedom from Spain and the special political relationship between the United States and Cuba which evolved as a result of the American victory and the imposition of the Platt Amendment, greatly encouraged the entry of American capital. During the period of American military occupation much direct United States investment occurred. This was the result of three factors: (1) the impoverished state of the island in general due to the war, and the mortgage and loan obligations of property owners in particular, (2) the lack of sufficient domestic financial and credit institutions which could provide interim financing, and (3) the new political situation which made Cuba a safe rather than uncertain area for American investment. Thus the need for capital was great and American reluctance to provide it overcome. Inasmuch as there was no legislation limiting the sale of land to foreigners, a great deal of Cuban property was sold at bargain prices to the United States investors. Rapidly expanding trade between the two nations encouraged even more American investment. By 1914 the value of United States direct investments was approximately $253 million, an increase of $209 million over the 1897 figure.[31]

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[30] Leland Jenks, Our Cuban Colony, New York: Vanguard Press, 1928, p. 37.

[31] Economic Commission for Latin America, External Financing in Latin America, New York: United Nations, 1965, p. 15.

During World War I "the value of U. S. business holdings in Cuba doubled, and investments continued their advance during the decade of the nineteen twenties."[32] By 1919 American investments had accounted for 40-50 percent of the total value of the sugar industry assets.[33] In terms of value of output, the figure was about 50 percent.[34] The next year brought the Dance of the Millions and the sale of large volumes of Cuban assets to American corporations.

> In May 1920, the price of raw sugar climbed to the unprecedented level of over 23 cents per pound, only to fall to a low of 3/12 cents a few months later. This wide swing of the market brought ruin to the sugar industry and practically destroyed the Cuban banking institutions. As a consequence of this collapse, many sugar properties went into the hands of the American and Canadian Banks that had financed them.[35]

Thus, the transfer to United States ownership again occurred at a time when Cuba was under particular financial duress. In addition to sugar holdings, there were very substantial American investments in other sectors of the economy. Table 5 summarizes these investments for the years 1906, 1911, 1924, and 1927. As is indicated, sugar ranked a clear first, having experienced enormous expansion relative to the first decade of the twentieth century. Investment in railroads and public services followed, ranking second and third respectively by 1927. Real estate, tobacco, and government debt were other important areas into which funds were channeled.

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[32] Baklanoff, p. 29.

[33] The National City Bank of New York, Cuba: Review of Commercial, Industrial and Economic Conditions, New York, 1919, p. 3.

[34] A Study on Cuba, p. 238.

[35] Ibid., p. 240.

TABLE 5

UNITED STATES INVESTMENTS

	1906	1911	1924	1927
		(millions of dollars)		
Sugar industry	$ 30.0	$ 50.0	$ 750.0	$ 600.0
Railroads	39.0	25.0	110.0	120.0
Public Services	3.5	25.0	100.0	115.0
Real Estate	14.0	20.0	90.0	65.0
Tobacco	30.0	--	50.0	20.0
Commerce	--	--	30.0	30.0
Mines	3.0	25.0	35.0	50.0
Banks	4.0	5.0	20.0	--
Land	6.0	15.0	25.0	--
Other	30.0	10.0	40.0	40.0
Government debts	37.0	30.0	110.0	100.0

Source: *A Study on Cuba*, p. 267.

Although this infusion of American capital allowed increased imports and was accompanied by entrepreneurial skills and technological advances, "the passing of key economic activities into foreign ownership constituted a psychic blow to Cuba's national posture . . .,"[36] a blow which left an imprint of significance.

Having established a firm foothold in the Cuban economy in the early 1900's via venture capital, American investments were augmented by reinvestment of earnings, the aforementioned instances of forced-sale purchases and foreclosures, and the potential for investment which attracted more American firms. It is difficult to convey the pervasiveness of United States interests using absolute figures alone. In the year 1927 Americans owned over 20 percent of all fertile land in Cuba, controlled 90 percent of Cuba's utilities, 75 percent of the banking business (jointly shared by three American and three British banks),[37] over 60 percent of the value of sugar output, and numerous retail and wholesale establishments.

The economic benefits of these investments cannot be quantified, but they were enormous. Most developing nations encounter great difficulties creating the necessary infrastructure which is a springboard to rapid and sustained growth. Social overhead projects by their very nature are not likely to attract foreign capital,[38] so the task is that much greater. Cuba, however, enjoyed a rather unique situation in which

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[36] Baklanoff, p. 29.

[37] Stages and Problems of Industrial Development in Cuba, p. 40.

[38] See D. Losman, "Foreign Aid, Socialism, and the Emerging Countries," Duquesne Review, Spring, 1967, p. 57.

huge volumes of American investment developed not only the island's major industry and exchange earner, but ventured into the social overhead requirements as well. Thus, by the end of the 1920's "U. S. capital had created an islandwide electric power system and organized and financed a substantial fraction of Cuba's railways."[39]

During the 1930's American holdings contracted significantly and continued to decline through 1943. After that year an increase in American investment occurred, although the great levels of the late 1930's were not again reached until 1959. Table 6 presents a summary of direct United States investments in Cuba for six selected years from 1929-1954. The significant decline in the value of sugar assets during the depression years resulted in public utilities investments overtaking sugar as the chief locus of American capital. Thus, from 1936 onward utility investments outweighed those in agriculture (principally sugar). In the period 1956-1959 Cuba's financial stability, continued close relationship with the United States, and its economic potential again created fertile ground for an inflow of American funds. The value of direct United States investments, which followed a diversified pattern, increased by 73 percent over this period, amounting to $956 million by 1959. Perhaps surprisingly, almost one-fifth of the postwar increase was added during 1959, Castro's first year in power.[40]

To summarize the pervasiveness of United States economic interests in Cuba, the remarks of J. Wilner Sundelson will be quoted. He stressed

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[39] Baklanoff, p. 29.

[40] *Ibid.*, p. 31.

TABLE 6

DIRECT UNITED STATES INVESTMENTS IN CUBA IN SELECTED YEARS

Economic Sector	1929	1936	1946	1950	1953	1954	1958
			(millions of dollars)				
Agriculture	575	265	227	263	265	272	--
Petroleum (refineries)	9	6	15	20	24	27	--
Manufacturing	45	27	40	54	58	55	--
Public Utilities	215	315	251	271	297	303	--
Wholesale-retail business	15	15	12	21	24	35	--
Other industries	60	38	8	13	18	21	--
	919	666	553	642	686	713	861[a]

[a]Estimated total.

Source: <u>Stages and Problems of Industrial Development in Cuba</u>, p. 157.

the importance of American capital not only in the sugar industry, but elsewhere, writing that:

> United States interests in Cuba were in rubber, chemicals, pharmaceuticals, fertilizers, textiles, leather products, building materials, glass, furniture, petroleum and its derivatives, metal products, machinery, and matches. United States oil companies are reported to have spent $25 million prospecting for petroleum . . . . The United States government put a total of $90 million in the Nicaro complex. The names of the companies involved in Cuba read like a Who's Who of American business . . . . In 1960 United States investments in Cuba stood at approximately $1.5 billion.[41]

Nevertheless, it is important to note that despite this great absolute value of American interests, a process of "Cubanization" had been occuring for some time, chiefly in the areas of sugar, banking, air transport, and insurance. Private Cuban groups had succeeded in gaining control over significant portions of economic activity hitherto dominated by foreign--more specifically, American--interests. Table 7 indicates the nationality of ownership and percentages of production in the sugar industry for the years 1935-1958. Significantly, since 1935 the percentage of total production owned by Americans has continuously declined so that the Cuban dominance by 1958 roughly approximated that of the United States 33 years earlier. In reading this table it should also be noted that some United States-owned mills were corporations which had important Cuban investors. In the banking sector, the crisis of 1920-21 had forced 20 Cuban banks to close, leaving the industry almost wholly in foreign hands. By 1955, however, "Cuban-owned banks held 60 percent

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[41] J. W. Sundelson, "A Business Perspective," in J. Plank, editor, Cuba and the United States, Washington, D. C.: Brookings Institution, 1967, p. 101.

TABLE 7

SUGAR MILLS IN CUBA, NATIONALITY OF OWNERS, AND PERCENTAGE OF SUGAR PRODUCTION IN SELECTED YEARS 1935-1958

	Cuban		United States		Others		Total	
Years	Units	% of Production	Units	% of Production	Units	% of Production	Units	% of Production
1935	50	13	70	62	59	18	179	100
1939	56	22	66	55	52	16	174	100
1952	113	55	41	43	7	2	161	100
1955	118	59	39	40	4	1	161	100
1958	121	62	36	37	4	1	161	100

Source: Stages and Problems of Industrial Development, p. 157.

of the nation's deposits."[42] A similar trend occurred in the insurance industry, while the nation's leading air transport firm, previously an American subsidiary, came under Cuban ownership.

The contribution to the Cuban economy by American capital was enormous and has been ably demonstrated in a recent article.[43] Unfortunately, the fact that Americans also benefited and the fact that the investments tended to be capital rather than labor-intensive evoked much resentment. Thus, the contribution to total employment was not as great as many Cubans would have liked and this tended to obscure the technical and entrepreneurial skills which came with American capital, the amount of taxes paid, and the tremendous volume of foreign exchange earnings. To some degree, also, the sugar monoculture and a failure to diversify was blamed on the United States, although the foundations of the economic structure had been laid well before American investment ever occurred. To the extent that American capital and markets meant that sugar production was profitable and that the free market led toward increased rather than less specialization, this was not the fault of the United States, but rather the Cuban government which did not actively pursue diversification. Ironically, the Castro regime itself found that diversification entails great costs and has returned to an emphasis on sugar as the crucial sector--in this instance, without any pressure from American capital or the United States government. In similar, fashion, the transfer of dividends and a portion of the profits back to the United States tended to be magnified out of proportion when in fact

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[42] Baklanoff, p. 33.

[43] See Baklanoff.

rates of return were not particularly high; indeed, they were lower than corresponding earnings on American investments in Latin America as a whole and in Western Europe. As Baklanoff states, "The burden of evidence suggests that the earnings of U. S. business investments in Cuba were a modest price to pay for the growth-promoting impacts . . . ."[44]

American investment also produced important balance of payments effects. As has already been indicated, rates of profit were relatively low rather than exorbitant. In absolute figures the earnings were falling in the late 1950's, from $73 million in 1957 to $46 million in 1958 to $28 million in 1959. In addition, a portion of these profits were reinvested in Cuban operations.[45] The last year in which full data are available is 1957. "Directly contributing to Cuba's foreign exchange earnings were export sales [by U. S. owned firms] of $273 million and capital inflows from the United States of $88 million."[46] From these inflows must be deducted the outflow due to the imports of these firms and their income and royalty remittances, which approximated $156 million (ignoring petroleum imports). On balance, then, "the investments accounted for a net direct foreign exchange gain in 1957 on the order of $200 million."[47] In addition, the volume of import substitutes produced by American firms represented a considerable savings of hard currency. Thus, over 85 percent of American-owned manufacturing establishment sales ($150 million in 1957) were domestic, a very large portion

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[44] Ibid., p. 34.

[45] National Foreign Trade Council, U. S. Business in Cuba, New York, 1950, p. 3.

[46] Ibid.

[47] Ibid.

of which would otherwise have been spent on imports.[48] Lastly, it should be noted that of the products imported by American firms a very substantial amount was capital equipment, which came almost wholly from the United States. In terms of balance of payments effects, then, American direct investment in Cuba provided a very substantial positive contribution, despite profit remittances.

In spite of the facts presented above, the investments themselves tended to evoke a negative or nostalgic response, even from those most favorably disposed to the United States.[49] And, of course, there is always a lag between the facts as they are and the facts as perceived and understood in general. Thus, American dominance and power remained the clearest imprint in many Cubans' minds, while the notions of a growing "Cubanization," of the nonexcessive rates of profit by American firms, and the widespread benefits emanating from American capital remained in obscurity. It was felt that economic pressures from American businesses coupled with political pressures from Washington had influenced corrupt Cuban governments to undertake policies inimical to Cuba's best interests. It was alleged that American business had forcibly created an inequitable trade relationship between Cuba and the United States and that the severe retardation of industrial development and the failure to diversify were direct results of the dominance of

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[48] Ibid., p. 4.

[49] Thus, in A Study on Cuba the authors note that as early as 1927 "The Cuban entrepreneur . . . no longer served as the mainspring of the national economic activity . . . it is regretable so large a part of its [Cuba] productive wealth passed from Cuban to foreign hands" (p. 283). A careful reading of this excellent study will reveal several instances in which some bitterness or latent resentment due to private or government actions by the United States comes to the surface.

American economic interests. In short, "exploitation" rather than "contribution" was the imprint felt by many, particularly those associated with Castro's 26th of July movement.

The scope and impact of American capital and technical investments cannot be overestimated. In perhaps no other foreign country has American capital ever been so dominant. For this reason, it was resented, despite its benefits. For this reason also, the United States embargo had a much greater impact and disruptive effect than would normally be expected, as will be demonstrated.

International Trade

In terms of external trade, the mercantilist policies followed by Spain restricted the possibilities of selling Cuban products to other countries, while at the same time requiring that the bulk of Cuba's imports come from that nation as well. In the second half of the 1700's trade became considerably liberalized, encouraging production of tobacco, sugar, and coffee. Complete freedom of trade for Cuba was declared in 1818 and this gave impetus to a large amount of exchange with areas other than Spanish possessions, particularly with the United States, although commerce between the two countries had already shown rather substantial increases after American independence from Britain.

Until the end of the eighteenth century, Cuba's balance of trade had generally been unfavorable, chiefly due to the limitations upon exports resulting from Spanish policy. Due to the existence of extensive smuggling, the actual deficit was smaller than trade figures indicated. Commerce with the United States and England increased

enormously during the first half of the 1800's. Coupled with Spain, these three nations received 73 percent of Cuba's exports in 1848.[50] Table 8 presents the import and export volume with these countries in the middle 1800's. The overall trade turnover (imports plus exports) placed the United States in the position of leading trading partner. As is indicated, the level of Cuban imports during the 1846-1859 period was more or less equal from both the United States and Spain; however, Cuban exports to the United States were clearly most important.

"From the beginning of the nineteenth century, trade had been the best index of the economic situation of Cuba, and it showed wide fluctuations."[51] In only eleven of the first 60 years of the 19th century was the balance of trade favorable to Cuba, although the trade balance with the United States was consistently favorable, and by a considerable amount. This was a source of some unhappiness for American policy makers who felt that Cuba could have imported more were it not for tariff impediments. Thus, the United States had become the principal market for Cuban exports in the middle 1800's, although it was not Cuba's major supplier until much later. Table 9 presents Cuba's foreign trade with both the United States and Spain for the years 1891-96. Even then, Cuba still enjoyed a considerable export balance with respect to United States trade, while the balance with Spain, due to high levels of import, was unfavorable.

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[50] A Study on Cuba, p. 129.

[51] Ibid., p. 131.

TABLE 8

CUBAN TRADE WITH THE UNITED STATES, ENGLAND, AND SPAIN
1841-1859

		Cuban Imports						
Year	From:	U.S.	Spain	England	To:	U.S.	Spain	England
				(thousands of pesos)				
1841-45		6,200[a]	33,639	17,645		5,282[a]	19,403	36,158
1846-50		27,838	27,210	21,682		37,426	16,957	35,105
1851-55		35,978	44,729	31,991		61,817	17,727	42,388
1856-59		40,308	31,042	29,406		68,339	20,974	37,294
Total of 1846-1859		104,124	102,981	86,079		167,582	55,658	114,787

[a]1842 only.

Source: A Study on Cuba, p. 129.

TABLE 9

CUBAN TRADE WITH THE UNITED STATES AND SPAIN
(1891-1896)

Year	Spain		United States	
	Cuban Imports from	Cuban Exports to	Cuban Imports from	Cuban Exports to
	(thousands of dollars)			
1891	22,168	7,193	12,224	61,714
1892	28,046	9,570	17,953	77,931
1893	24,689	5,697	24,157	78,706
1894	25,592	7,265	20,125	75,678
1895	26,998	7,176	12,807	52,871
1896	26,145	4,257	9,632	42,314

Source: A Study on Cuba, p. 234.

Table 10 indicates the commodity composition of Cuban-United States trade for the year 1893. Sugar was by far the most important Cuban export, the United States having been Cuba's chief sugar customer since the early 1800's. Tobacco ranked as the second leading export, while lard, wheat, and machinery headed the list of imports.

It is important to note that commercial policies strongly influenced the trade patterns of Cuba. The first, of course, were the mercantilist policies of Spain. After 1818, when free trade was allowed, commercial relations were controlled via tariff manipulations. However, the trade relationship between the United States and Cuba did not smoothly develop due to tariff impediments from both sides. In order to discourage much of the triangular trade which had developed--specifically, the import of American flour into Cuba and its subsequent re-export to Spain--the Spanish authorities in 1820 increased the Cuban duty on American flour. The United States retaliated by increasing its duty on Cuban coffee, thereby nearly destroying an industry which heavily relied on American purchases. The Cubans, naturally, resented tariff manipulations--both Spanish and American--which affected them so adversely. In attempting to placate dissatisfaction on the island, Spain on several occasions made the tariff more reasonable, which led to increased American-Cuban trade. This, in turn, resulted in upsurges in Cuban economic activity, usually later dissipated by tariff surcharges and other hindrances. Despite mounting protests, "Spain unheedingly dictated a new tariff in 1892, containing such limiting provisions that the instrument gained the character of a national scandal."[52]

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[52] Stages and Problems of Industrial Development in Cuba, p. 17.

TABLE 10

CUBA AND THE UNITED STATES: MAIN PRODUCT EXCHANGE
1893

Exports to the United States		Imports from the United States	
	(thousands of dollars)		
Sugar	60,637	Lard	4,032
Leaf tobacco	8,940	Wheat flour	2,822
Manufactured tobacco and cigarettes	2,766	Machinery	2,792
		Lumber	1,410
Fruits and nuts	2,378	Hams and Bacon	1,377
Lumber	1,071	Charcoal ore	931
Honey	1,081	Corn	582
Iron ore	641	Potatoes	554
Hides	279		

Source: A Study on Cuba, p. 234.

When the McKinley Tariff of 1890 lowered American customs duties and granted free entry for many foreign products, the Aldrich Amendment was incorporated into the law. Due to the unbalanced trade of the United States with several Latin American countries, including Cuba--trade which was biased by a customs policy against the United States in favor of Spain--this amendment denied such countries the new low tariff rates unless reciprocity was extended. Under tremendous pressure from Cuban interests, Spain agreed to the Foster-Canovas arrangement by which Cuba and Puerto Rico were granted the full benefits of the McKinley tariff in exchange for tariff concessions for American products. Although trade in both directions increased substantially, with the absolute increase in Cuban exports outweighing the increase in imports from the United States, in relative terms it was imports which grew most rapidly. The potential for mutually beneficial exchange can clearly be seen from the actual trade which resulted when the Foster-Canovas Agreement was in force. By 1893 American exports to Cuba had risen so significantly that they equalled about three-fourths of the total exported to other Latin American nations.[53] Purchases from Cuba, principally sugar, "constituted 10 percent of the total value of the imports of the United States, and were surpassed only by imports from Great Britain and Germany."[54]

In 1894 the Wilson Tariff replaced the McKinley law and the Foster-Canovas Treaty expired. The reciprocity treaties were terminated and the American market became a considerably more protected one. The duty on

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[53] A Study on Cuba, p. 134.

[54] Ibid.

sugar imports was made 40 percent ad valorem, with an additional charge on refined sugars for the purpose of encouraging domestic refining. Hawaiian sugar continued to enter the United States duty-free, putting Cuba's sugar producers at an additional disadvantage. As Table 9, page 56, indicates trade between the two countries significantly declined. Cuba's imports from the United States fell by about 40 percent from 1894 to 1895, while exports to that market declined 30 percent. These decreases continued the following year .

The impact upon Cuba was very great. The increased difficulties of selling in the American market resulted in decreased sugar production. On top of this, sugar prices had begun to fall. In addition, the restored duties of the colonial system plus a decrease in exchange earnings meant higher price levels within Cuba. "The difficult economic situation which arose was just one more reason for the increasing friction between the Cubans and Spain, and helped to consolidate the desire for independence."[55] The significance to Cuba of American commercial policy and its effect upon Cuba's independence movement of the late 1890's is aptly described by L. H. Jenks.

> If a master-mind had been in charge of the affairs of the United States in the early nineties, seeking for his own ends to foment rebellion in Cuba against Spain, it would not be difficult to guess the course of action most likely to bring results. He would have sought to exaggerate the inconveniences of Spain's colonial policy for Cuba, in the face of Cuba's commercial dependence upon the United States. He would have manipulated American tariffs to show the Cubans how prosperous they could be if trade restrictions were removed; how serious was their situation if the colonial policy continued to prevail . . . . Reduced to barest

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[55] Ibid., p. 137.

outlines, this is exactly what took place in the relations of Cuba and the United States from 1890 to 1895.[56]

"It is important to note that since the middle of the 19th century, Cuban economic spokesman [sic] had voiced the necessity of maintaining close and mutually satisfactory trade relations with the United States."[57] Commerce between the two nations had weakened considerably in the years just prior to 1898 and then came to a halt during the Spanish-American War. The period of American military occupation plus the resulting new political relationships created stimulated exchange between the two countries.

It was recognized within Cuba that access to the American market was vital to Cuba's economic well-being. Inasmuch as a protectionist current was quite strong in the United States, Cuba sought guaranties of access to American markets after independence, although it should be noted that there were some Cubans who warned at that early date of an excessive reliance upon the American market. A Reciprocity Treaty was finally ratified by the United States Congress in late 1903, probably more due to political than economic reasons. Mutual preferential tariff reductions were enacted, the result being that Cuban sugar had gained a preferred position in the American market. In turn, American imports were granted tariff preferences which resulted in Cuba's imports from the United States increasing enormously, so that American participation

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[56] Jenks, p. 137.

[57] _Stages and Problems of Industrial Development in Cuba_, p. 17.

in Cuba's import market increased "from 42.75 percent in 1904 to 53.73 percent in 1913."[58]

This increased share, it should be noted, was the result not of the displacement of the products of other countries, but rather the large absolute increase in the volume of American exports, while other suppliers more or less maintained their existing amounts. The increased sugar prices for Cuban producers which the reciprocity agreement had allowed expanded income greatly, and with it, the demand for imports, most of this increased demand going to American producers. Nevertheless, the resilience of prior trade patterns is significant to note. Thus,

> The consumer habits of the Cuban people, the commercial relations long in existence, and the level of prices, were the factors that determined the persistence of the old interchange pattern in spite of the considerable advantages obtained by the United States by virtue of the Reciprocity Treaty.[59]

It should also be noted that although the new agreement created a price premium for Cuban sugar above the world market level, Cuba's tariff concessions allowed easy entry of many American products which might have been replaced by domestic production if stimulated by only moderate tariff protection. In addition, the general tariff structure which the United States had adopted discriminated more heavily against processed and manufactured goods, a practice common in developed countries. The purpose, of course, was to allow easy entry of raw materials which can be processed and sold domestically (or resold to the original suppliers) rather than having the latter process the raw materials themselves and

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[58] A Study on Cuba, p. 285.

[59] Ibid.

compete in American finished goods markets. Thus, Cuban diversification and industrialization was inhibited by the preference arrangements.[60] In fact, the sugar monoculture became more firmly entrenched as profits and investments became overly geared to sugar. The volume of tobacco, minerals, cattle, and non-sugar exports as a percentage of total exports declined steadily from 1913 through 1919.[61]

The overwhelming dominance of the United States since 1902 as Cuba's leading trade partner is clearly demonstrated in Table 11. Imports from the United States rose continuously from 1902 to 1919, increasing from 41.67 percent of Cuba's total imports to 76.13 percent. The dislocations caused by World War I had decreased the share of imports coming from Europe, although the Cuban market was partially regained during the 1920's. Nevertheless, the American share exceeded 61 percent each year. In terms of export markets, Cuba's reliance upon the United States was fantastic, averaging close to 80 percent of total exports for the 1902-1927 period. In 1909 the figure reached almost 88 percent; however, after that date higher American tariffs forced Cuba to seek other markets.

The protectionist policies assumed by the United States under the Hawley-Smoot Tariff of 1930 increased the duty on Cuban raw sugar to two cents per pound and had disastrous effects upon the island's economy.

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[60] For an astute analysis of the negative effects of the tariff policies of the developed nations upon the development of the "have-not" nations, see Harry Johnson, Economic Policies Toward Less Developed Countries, New York: Frederick A. Praeger, 1967, particularly pp. 72-104.

[61] Stages and Problems of Industrial Development in Cuba, p. 27.

TABLE 11

CUBAN-UNITED STATES TRADE
1902-1927

Year	Cuban Exports to U.S.	U.S. as % of Total Cuban Exports	Cuban Imports From U.S.	U.S. as % of Total Cuban Imports
		(thousands of dollars)		
1902	25,243	41.67	49,498	76.94
1903	25,703	49.50	60,089	76.78
1904	32,929	42.75	74,466	83.66
1905	43,118	45.40	95,331	86.53
1906	47,602	48.56	88,175	84.85
1907	51,309	49.12	90,874	87.23
1908	41,577	48.99	78,869	83.37
1909	46,339	50.67	109,408	87.73
1910	54,569	52.63	129,329	85.75
1911	59,962	53.04	106,661	86.76
1912	64,632	52.41	145,186	83.93
1913	75,288	53.73	131,572	79.93
1914	68,623	58.06	145,881	83.82
1915	90,462	64.21	195,289	82.67
1916	153,020	72.33	242,638	75.40
1917	189,875	74.16	255,575	71.02
1918	219,272	74.42		
1919	271,506	76.13	439,835	76.77
1920	404,386	72.60	626,916	78.95
1921	263,516	74.35	222,963	80.18
1922	120,259	66.70	260,609	80.07
1923	181,616	67.55	367,346	87.24
1924	171,571	66.10	362,265	83.31
1925	187,224	62.97	264,200	74.64
1926	160,051	61.36	242,882	80.50
1927	159,056	61.80	256,143	79.00

Source: A Study on Cuba, pp. 286-87.

> Cuban sugar exports to the United States, which accounted for 58 percent of the total American consumption in 1924, were reduced to slightly over 25 percent in 1933 . . . Parallel with the decrease in Cuba's participation in the American market, there was an increase in production in Hawaii, the Philippines, and Puerto Rico, and to a lesser degree, in the continental beet and sugar cane areas.[62]

Accompanying the great decrease in exports to the United States was an even more rapid decline in imports, which fell by approximately 80 percent over the 1929-33 period (see Table 12). The Gentleman's Agreement of 1930 and the Chadbourne Plan of 1931 represented attempts at stabilizing both world sugar prices and Cuba's position in the American market (Gentleman's Agreement).[63] Neither of these measures were successful in helping Cuba's export sales.

Franklin D. Roosevelt's administration modified the protectionist policies somewhat, reducing duties and introducing the use of sugar quotas (the Jones-Costigan Act). Later, a bilateral trade agreement, aimed at restoring the former large volume of trade between the two countries was signed, supplementing the first Sugar Act (Jones-Costigan). The duty on Cuban sugar was reduced, while that on other countries was not, thereby increasing Cuba's preferential margin. This resulted in a higher price for Cuban sugar producers, although the volume of sugar imports could not increase since it was now limited by a quota. In addition, the quotas were assigned according to the participation of foreign suppliers in the American market during the years 1931-33, when

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[62] A Study on Cuba, p. 333.

[63] See Boris C. Swerling, International Control of Sugar, 1918-1940, Stanford: Stanford University Press, 1948, for a complete account of sugar stabilization efforts during this period.

TABLE 12

CUBAN-UNITED STATES TRADE
1928-1940

Year	Cuban Exports to U.S.	U. S. as % of Total Cuban Exports	Cuban Imports From U.S.	U.S. as % of Total Cuban Imports
		(thousands of dollars)		
1928	202,535	72.84	129,349	60.78
1929	208,754	76.63	127,051	58.76
1930	116,074	69.38	91,872	56.55
1931	80,074	74.94	45,940	57.35
1932	57,482	71.26	27,653	54.20
1933	57,112	67.78	22,674	53.53
1934	81,094	75.26	41,225	56.15
1935	101,534	79.31	55,686	58.33
1936	121,899	78.72	66,494	64.42
1937	150,149	80.69	88,847	68.57
1938	108,363	75.95	75,152	70.89
1939	111,182	75.29	78,381	74.04
1940	104,906	82.42	81,042	76.66

Source: A Study on Cuba, p. 399.

Cuba's participation had been very low (28 percent). "Largely as the result of the new commercial policy of the United States, the Cuban sugar industry had been saved from further decline,"[64] although the increased earnings were not as great as expected. There were, however, two drawbacks from the Cuban perspective. In its 1927 tariff Cuba had attempted to give moderate protection to local industry for development of import substitutes and diversification. However, the bilateral agreement also gave preferential status to American products which entered in increasing number, thus hampering domestic industrialization. More specifically, the agreement resulted in American concessions for 35 separate Cuban items, while Cuban concessions covered 400 items. In addition, the Sugar Act "paralyzed the development of the Cuban sugar refining industry,"[65] by heavy effective protection for refined sugar. Finally, it should be noted that the Reciprocal Trade Agreement of 1934 and the Jones-Costigan Act

> ushered in the age of managed sugar markets and controlled competition. Henceforward, the United States government, rather than private interests, determined Cuba's share of the American market.[66]

Table 12 shows Cuban-United States trade during the 1928-1940 period. The increases in trade beginning in 1934 should be noted. Via the new agreements, American participation in the Cuban market increased from 53 percent in 1933 to 76 percent in 1940, while the percentage of Cuba's exports going to the American market increased from 67 to 82

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[64] _Stages and Problems of Industrial Development in Cuba_, p. 40.

[65] _A Study on Cuba_, p. 334.

[66] C. Barnet and W. MacGaffey, _Cuba_, New Haven: Human Relations Area Files Press, 1962, p. 180.

percent. Thus, despite the several bilateral agreements which Cuba had negotiated with other countries, trade with the United States became even more concentrated.

It should be noted that in both world wars of this century the United States has negotiated arrangements by which Cuba provided a guaranteed sugar supply to the United States. Thus, the 1917-1918 sugar crop was sold almost exclusively to the latter nation and its allies, and the 1918-1919 crop again almost wholly to the United States. Such bulk sales had a highly stimulating effect upon Cuban economic activity and foreign exchange earnings.

With American entry into World War II, sugar demand in that country rose substantially and the quota system was manipulated so that increased imports from Cuba were made possible. "The flow of large volumes of sugar, mainly from Cuba, helped maintain an adequate level of supply in the United States and was intended primarily to check an excessive increase in prices,"[67] although prices still were not stabilized at a satisfactory level. Under the need for increased sugar imports, an arrangement was negotiated whereby the entire 1942 Cuban crop was to be sold to the United States, which also considerably reduced the tariff on sugar--both raw and refined. Although the "fairness" of the price agreed upon is subject to debate, the result was a 1942 crop whose value more than doubled that of the previous year (it should be noted that this increased dollar value was in part negated by the increased prices on imports from the United States).

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[67] A Study on Cuba, p. 478.

This purchase had the effect of greatly encouraging sugar production and related efforts within Cuba. However, in the spring of 1942 sugar rationing was introduced in the United States and the 1943 negotiated purchases were considerably below the previous year's level. This abrupt change in purchasing policy created very serious problems for the entire Cuban economy. Similar bulk purchases were made for 1944, when an increase over the 1943 crop was negotiated, and for 1945, 1946, and 1947. Beginning with 1945, an "escalator" clause was included in the arrangements. This provided that an increase in the American cost of living and price level would result in higher sugar prices for Cuba, an arrangement which considerably improved Cuba's real gain from the transactions. Unfortunately, the lack of consistency in American policy had accentuated the instability of the Cuban economy. Thus, the 1943 purchases, being rather low, discouraged plantings and cultivation. This, in turn, resulted in poor harvests for the 1945 and 1946 crops. Commenting on the situation, Timoshenko and Swerling state that:

> What Cuba had most to contend with was lack of continuity in official policy . . . . Sharp reversals in American wartime policy became demoralizing to Cuba producers and contributed to the postwar shortage. Although Cuba had been encouraged to extend its plantings in 1942, under the contract for the following year the exportable crop was limited to 3 million tons, and about one-third of the cane acreage was left unharvested.[68]

Over the years 1942-1947 Cuba had supplied almost 45 percent[69] of America's annual consumption. Despite the instability which shifting

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[68] V. P. Timoshenko and B. C. Swerling, The World Sugar, Stanford: Stanford University Press, 1957, p. 175.

[69] A Study on Cuba, p. 485.

United States policy had engendered, the bulk sugar purchases coupled with remunerative prices had brought Cuba a general prosperity. Cuba's ready cooperation with the United States during times of emergency also created a feeling among many Cubans that the United States should be expected to reciprocate--that commercial policy between the two nations should be geared to allow Cuban diversification and import substitution while at the same time maintaining Cuba's share of the American sugar market. The relative failure of diversification, coupled with increasing imports and a declining share of the American market produced a patent uneasiness within Cuban financial circles by the 1950's.[70] Without doubt, some bitterness was also engendered.

When both the United States and Cuba became contracting parties to the General Agreement on Tariffs and Trade in 1948 the prewar pattern of commercial policy was altered. The purpose of GATT was the removal of restrictions upon trade as well as the attempt at universalizing tariff reductions. This orientation directly conflicted with the desires of the sugar industry to maintain their preferred position within the American market and the desire of nascent industry for protection. Cuba signed the GATT only after negotiating an Exclusive Agreement with the United States by which many mutual preferences were retained. Thus, the essentials of the past preference system were retained. Protective tariffs for certain Cuban products were increased in return for concessions for American exports. These latter arrangements gave "the United

[70] See the speech of Dr. Louis Machado, February 9, 1955, published in The Present Status of Cuban-American Trade Relations, Havana: Lions and Rotary Clubs of Havana, 1955, especially pp. 14 and 21.

States a 20 to 90 percent reduction of tariffs applying to other countries,"[71] thus making entry to the Cuban market of non-U. S. products quite difficult.

The United States Sugar Act of 1948 and the Exclusive Agreement had a mixed effect. On the positive side, they improved Cuba's position considerably as a supplier as compared to the situation under the 1934 and 1937 legislation. However, the duty effecting sugar was raised and Cuba's margin of preference reduced. At this time, however, "the price of sugar was so high and the future outlook so optimistic . . . Cuba accepted these modifications without strong protest."[72]

Table 13 indicates Cuba's share in the American sugar market for the years 1909-1954. With only four exceptions, during the 1913-1927 period Cuba supplied over 50 percent. During the 1930's the figure rarely reached one-third. The 1940's, of course, witnessed a resurgence in the Cuban share, but by 1947 it had reached a peak and declined steadily. Thus, the initial optimism concerning the agreement gave way to still further disappointment and bitterness as time passed. A leading citizen of Cuba in 1955 stated the following:

> Cuba gave preference and special guaranties to American production in the Exclusive Agreement, but did not get . . . protection for its sugar . . . . It is evident then, that the modification of the Agreement must be negotiated, and if it were not possible to achieve this by mutual agreement, it should be far better to denounce it, despite all the difficulties and troubles this course might entail us, in actual practice . . . .[73]

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[71] Barnet and MacGaffey, p. 180.

[72] _Stages and Problems of Industrial Development in Cuba_, p. 62.

[73] Guillermo Belt, in _The Present Status of Cuban-American Trade Relations_, p. 68.

TABLE 13

SUGAR
CUBA'S SUPPLY TO THE U.S. MARKET

Year	Cuban Sugar Exported to the United States	U.S. Sugar Requirements	Cuba's Share of the U.S. Sugar Market
	(English Short Tons--Raw Value)		
1906	1.387,000	3,433,000	40.7 ~~49.7%~~
1907	1.607,000	3,588,000	44.8%
1908	1.100,000	3.818,000	28.8%
1909	1.710,000	3.904,000	43.8%
1910	1.967,000	4.015,000	49.0%
1911	1.691,000	4.017,000	42.1%
1912	1.995,000	4.200,000	47.5%
1913	2.386,000	4.485,000	53.2%
1914	2.420,000	4.507,000	53.7%
1915	2.210,000	4.556,000	48.5%
1916	2.000,000	4.385,000	45.6%
1917	1.806,000	4.415,000	40.9%
1918	2.254,000	4.189,000	53.8%
1919	2.447,000	4.875,000	40.8%
1920	2.550,000	4.895,000	52.1%
1921	2.235,000	4.922,000	45.5%
1922	3.460,000	6.103,000	56.7%
1923	3.174,000	5.729,000	55.4%
1924	3.386,000	5.818,000	38.2%
1925	3.486,000	6.603,000	52.8%
1926	3.942,000	6.797,000	58.0%
1927	3.941,000	6.348,000	55.0%
1928	3.122,000	6.643,000	47.0%
1929	3.614,000	6.964,000	51.9%
1930	2.947,000	6.710,000	43.9%
1931	2.441,000	6.561,000	37.2%
1932	1.762,000	6.249,000	28.2%
1933	1.604,000	6.316,000	25.4%
1934	1.514,000	6.154,000	24.6%
1935	1.965,000	6.400,000	30.7%
1936	1.972,000	6.617,000	29.8%
1937	2.154,000	6.861,000	31.4%
1938	1.939,000	6.619,000	29.3%
1939	1.933,000	7.465,000	25.9%
1940	1.746,000	6.443,000	27.1%
1941	2.699,000	8.008,000	33.7%
1942	1.795,000	5.556,000	32.3%
1943	2.858,000	6.466,000	44.2%

TABLE 13 (continued)

Year	Cuban Sugar Exported to the United States	U.S. Sugar Requirements	Cuba's Share of the U.S. Sugar Market
		(English Short Tons--Raw Value)	
1944	3.616,000	6.941,000	52.1%
1945	2.800,000	5.996,000	46.7%
1946	2.280,000	5.657,000	40.3%
1947	3.914,000	7.758,000	50.8%
1948	2.924,000	7.080,000	41.3%
1949	3.108,000	7.580,000	41.0%
1950	3.267,000	8.249,000	39.6%
1951	2.979,000	7.965,000	37.4%
1952	2.979,000	7.965,000	37.4%
1953	2.716,000	8.482,000	32.0%
1954	2.723,000	8.250,000	33.0%

Source: The Present Status of Cuban-American Trade Relations, pp. 14, 16.

These were the words not of a revolutionary or a socialist, but simply a responsible and educated Cuban national who felt his nation was not faring well in its trade with Cuba's large neighbor to the north. Che Guevara's words are more typical of the attitude of Castro's followers.

> The American Government used the quota system . . . not only to protect her own sugar industry, as demanded by her own producers, but also to make possible the unrestricted introduction into our country of American manufactured goods . . . . Under these conditions of competition, and in view of the proximity of the United States, it became almost impossible for any foreign country to compete with American manufactured goods.
>
> The U. S. quota system meant stagnation for our sugar production . . . .[74]

Despite these statements, Cuba did receive some genuine and substantial benefits, although it is a moot question as to whether the benefits outweigh the sacrifices. Cuba's sugar preference coupled with the American quota system--which raised United States domestic sugar prices above world prices--resulted in Cuba's earning an export premium in the 1950's of approximately $100 million annually.[75] Although this amount would have been even greater had their market share not fallen, it is a very considerable sum for a country in Cuba's economic position. While it is also true that a large part of this amount represented a subsidy to American sugar interests in Cuba, these interests employed local factors of production and did reinvest a portion of this subsidy. More importantly, by the 1950's, the major portion of the industry was in

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[74]Ernesto Che Guevara, "The Cuban Economy," International Affairs, October, 1964, p. 590.

[75]Boris Swerling, "Financial Alternatives to International Commodity Stabilization," Canadian Journal of Economics and Political Science, November, 1964, pp. 532.

Cuban hands and this represented a subsidy from the United States government to Cuban nationals.

Barnet and MacGaffey have provided an objective and reasoned summary of the liabilities for Cuba involved in Cuban-American trade policy.

> The commercial polity in effect until the Castro regime, designed primarily to favor the United States in return for advantageous sugar sales, had two unfortunate effects. The tariff discriminated unnecessarily against exporters in countries other than the United States, including those countries with which Cuba had a large export surplus. Moreover the close trade ties with the United States reduced Cuba's economic independence and, in effect, forced Cuba to forego tariff protection for nascent domestic industry. Although diversification of domestic production was concentrated in import-substituting products, producers found it difficult to compete with American manufactures because of the strong influence exerted by sugar and importing interests over economic policy. In addition, the proximity of the United States and Cuba's large dollar reserves made the importation of goods attractive, and the government feared that Cuba might lose its special advantages in the United States market, on which it greatly depended.[76]

A brief examination of Cuba's balance of payments position is now in order. Historically there have been several rather consistent trends. The first is that the balance of trade has been favorable. Secondly, these trade surpluses tended to be partially offset by deficits in most other accounts--transport, insurance, remittances, and tourism. Cuba was an export-oriented economy without a merchant marine, a capital importer, and until 1956 a nation whose net tourist revenues were negative--all of which resulted in net outpayments. Lastly, the current account balance had, nevertheless, traditionally been favorable due to the sizeable trade surplus which exceeded the intangibles deficits.

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[76] Barnet and MacGaffey, p. 182.

"Partly responsible for this favorable balance of payments was the remarkable flexibility in adjusting imports to export receipts,"[77] a traditional tendency since the first reciprocity agreement with the United States in 1903. Whenever revenues from sugar exports declined, importers cut their orders in the knowledge that domestic income would soon decline. Similarly, transport costs, insurance, and tourist outflows also fell. Thus, reasonable international payments balance was maintained and the government had little or no recourse to import or exchange controls except during emergencies such as World War II.

The decade of the 1950's, however, witnessed a departure from historical trends. On the positive side, the tourist account had by 1956 become favorable as the volume of American tourists increased. Nevertheless, except for 1953, unfavorable current account balances characterized each year of the 1950's, mainly due to a deterioration in the balance of trade. Imports consistently rose as a fraction of exports (again except for 1953 when the Korean war had increased sugar prices), narrowing the trade surplus until 1958, at which time a trade deficit appeared. The deterioration of the current account position was primarily due to a new inelasticity of imports which broke the traditional import sensitivity to export changes. Two factors came into play here: (1) the increasing downward rigidity of wages due to organized labor's opposition, which meant that wages were no longer easily reduced when sugar prices were low, and (2) the compensatory spending policies of the Batista regime which inflated incomes and

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[77] *Ibid*., p. 175.

tended to maintain imports despite slumping sugar prices. Both factors maintained imports when they otherwise would have fallen. By the end of 1958 balance of payments considerations led to the government's requiring exporters to exchange a large portion of their foreign currency earnings for Cuban pesos. In addition, the 1950's generally witnessed a depletion of international reserves in order to finance the payments deficits. Table 14 presents a summary of the balance of payments for the years 1955-1959.

In terms of the direction of trade, the 1950's brought some broadening in Cuba's trade patterns with the rest of the world. In the pre-World War II years more than 75 percent of Cuba's exports went to the United States. During 1940-1948 period this figure rose to 77.5 percent. During 1949-1958, however, the American share fell to 67.2 percent, largely due to increased sales to a reconstructed Europe, the Soviet Union, and other areas.[78] Thus, some diversification of exports markets did occur, although the United States remained the overwhelmingly dominant market for Cuban products.

As for imports, an even greater dependence upon the United States can be seen for the 1950's. During the 1953-1958 period roughly 73 percent of all imports came from American suppliers. In addition, the traditionally favorable Cuban balance of trade with the United States had changed to a deficit, as Table 15 indicates. Thus, from 1950 onward Cuba sustained a deficit each year except for 1953 and 1954. Between 1949 and 1958, trade with most of the Western Hemisphere also

[78] A Study on Cuba, p. 607.

TABLE 14

BALANCE OF PAYMENTS

	1955	1956	1957	1958	1959
		(in millions of pesos)			
Current account:					
Exports (f.o.b.)	607.8	694.5	844.7	763.2	675.3
Imports (f.o.b.)	-575.1	-649.0	-813.2	-807.5	-673.2
Foreign travel (net)	- 3.0	4.3	25.9	19.4	18.9
Transportation (net)	- 56.9	- 60.5	- 70.4	- 69.8	- 57.3
Investment income (net)	- 40.9	- 50.6	- 65.6	- 47.9	- 5.9
Other (net)	15.8	19.5	12.2	14.9	8.2
Capital account:					
Private donations and capital	57.7	33.9	43.2	- 20.9	102.8
Direct investment in Cuba	23.0	39.0	61.0	20.9	80.8
Official donations	--	.5	.6	.6	--
Official and bank capital	53.0	40.7	66.9	187.9	25.1
Loans to official banks	90.9	20.4	26.7	98.9	--
Monetary gold (decrease	50.0	.1	.2	55.1	30.2
Other	- 81.4	13.7	51.7	79.3	- 39.8
Net errors and ommissions	- 57.9	- 33.3	- 44.3	- 39.9	- 53.9

Source: Barnet and MacGaffey, p. 346.

TABLE 15

CUBAN TRADE BALANCE WITH THE UNITED STATES AND UNITED STATES SHARE OF TOTAL CUBAN IMPORTS 1950-1958

Year	Exports to U.S.	Imports from U.S.	Trade Balance	Total Imports	U.S. As % of Total Imports
		(millions of dollars)			
1950	380.9	407.1	-	515.1	79.0
1951	417.4	492.2	-	640.2	76.9
1952	407.3	462.0	-	618.3	74.7
1953	392.3	370.2	+	489.7	75.6
1954	367.9	366.7	+	487.9	75.2
1955	400.6	423.1	-	575.1	73.6
1956	429.7	486.9	-	649.0	75.0
1957	466.4	577.2	-	772.9	74.7
1958	490.0	542.5	-	777.1	69.8

Source: <u>A Study in Cuba</u>, pp. 607, 614.

showed a deficit,"[79] although trade surpluses with Europe generally outweighed these deficits.

Table 16 presents the geographical distribution of Cuba's foreign trade for the ten years prior to Castro. America's position as the overwhelming supplier and market is again immediately obvious. The United States and Latin America together supplied almost 80 percent of Cuba's imports, a consideration which will become most important in analyzing the boycott. Imports from the Soviet Union, Communist China and their satellites accounted for less than one-half of 1 percent, although their share of exports was four times that amount. This indicates that the proceeds of the sales to these nations were used mainly for the purchase of Western Hemisphere products rather than communist output. The same situation, on a larger scale, characterized trade with Europe, where proceeds from the export balances were again spent on sources of supply geographically closer to Cuba.

The commodity composition of trade should now be examined. Table 17 presents a breakdown of imports by type of good for the year 1954. As can be seen, foodstuffs are the leading import, followed closely by raw materials. The leading food imports were cereals and flours, fats, and oils, and fish. Household articles and fuels were other leading imports, although substantially below foodstuffs and raw materials.

Table 18 presents another breakdown on imports, this for the period 1949-1958. It is significant to note that the trend was for an increasing percentage of imports to be capital goods rather than

[79] Barnet and MacGaffey, p. 177.

TABLE 16

GEOGRAPHICAL DISTRIBUTION OF CUBA'S FOREIGN TRADE:
1949 to 1958

	Imports		Exports	
	Amount	%	Amount	%
	(thousands of dollars)			
United States of America[a]	$450,368	75.4	$415,469	62.5
Canada	14,333	2.4	9,101	1.4
Latin America	26,549	4.4	17,896	2.7
Europe (non-communist)[b]	69,708	11.6	141,109	21.4
Soviet Union	3	--	10,826	1.5
Communist Europe[c]	1,361	0.2	1,417	0.2
Japan	2,536	0.4	32,566	4.9
Communist China[d]	52	0.1	1,079	0.2
Other countries	32,759	5.5	34,636	5.2
	$597,669	100.0	$664,279	100.0

[a]Not including Puerto Rico.

[b]Europe, excluding the Soviet Union and countries included in footnote (c).

[c]Albania, Bulgaria, Czechoslovakia (90 percent of imports), Estonia, Hungary, Latvia, Lithuania, Poland, Rumania, East Germany and Yugoslavia.

[d]Includes Manchuria.

Source: Stages and Problems of Industrial Development in Cuba, p. 188.

TABLE 17

COMPOSITION AND VALUE OF IMPORTS, 1954

Item	Amount
(in millions of U.S. dollars)	
Consumer goods:	
Clothing	1.5
Household articles	34.7
Automobiles	25.6
Luxury	2.1
Foodstuffs	139.9
Medicines	11.1
Tobacco	1.1
Beverages	6.2
Other	4.2
Total	226.4
Production goods:	
Sugar industry	2.6
Other industries	51.2
Agriculture	13.4
Transport	12.8
Construction goods	17.7
Fuels	33.7
Raw materials	130.1
Total	261.5
Grand Total	487.9

Source: Adapted from Department of Commerce, Bureau of Foreign Commerce, Investment in Cuba, Washington, D. C.: Government Printing Office, July, 1956, p. 140.

TABLE 18

CUBA: COMPOSITION OF IMPORTS ACCORDING TO ECONOMIC CATEGORIES
1949-1958

Classification	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
					(millions of dollars)					
Durable consumer goods	50.7	62.1	73.9	75.7	56.7	63.9	76.6	84.4	112.9	110.0
Nondurable consumer goods	162.8	166.8	209.3	192.9	165.2	162.5	147.9	150.0	174.9	193.5
Total consumer goods	213.5	228.9	283.2	268.6	221.9	226.4	224.5	234.4	287.8	303.5
Fixed capital goods	94.7	97.6	144.7	139.4	96.9	97.7	139.8	169.9	206.4	208.2
Circulating capital goods (fuels lubricants, inventories in general)	142.9	188.5	212.2	210.2	160.7	163.7	210.7	244.5	278.6	265.3
Total capital goods	237.6	286.1	356.9	349.6	257.6	261.4	350.5	414.4	485.0	473.5
Unclassified items	0.4	0.1	0.1	0.1	10.2	0.1	0.1	0.2	--	0.1
Total	451.5	515.1	640.2	618.3	489.7	487.9	575.1	649.0	772.8	777.1

Source: A Study on Cuba, p. 618.

consumption items. Thus, capital imports represented slightly more than 52 percent of total imports in 1949, but rose to almost 61 percent by 1958.

Table 19 indicates the value of principal exports for 1953 and 1954. As would be expected, sugar dominated the picture, with tobacco a far distant second.

To summarize, it is evident that Cuba vitally depends upon foreign trade, with the ratio of imports to gross national product probably one of the highest in the world, close to 30 percent in the middle and late 1950's. Trade was extremely heavily concentrated with the United States and export earnings (about 80 percent of the total) essentially depended upon one product, sugar. All these conditions point to an extreme vulnerability to economic sanctions.

Political Pre-Conditions to the United States Embargo

The nature and origins of Castro's movement have been well documented elsewhere and need not be detailed here.[80] It is important, however, to recognize that Castro's revolution was the product of instabilities long in evidence in Cuban society. The 26th of July movement simply crystallized a revolutionary process characteristic of most of the present century and, perhaps, earlier. Political discontent, governmental instability and corruption, economic fluctuations,

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[80] See Theodore Draper, Castro's Revolution: Myths and Realities, New York: Frederick A. Praeger, 1962; Waldo Frank, Cuba: Prophetic Island, New York: Marzani and Mansell, 1961; Barnet and MacGaffey, pp. 211-271; Jules Dubois, Fidel Castro: Rebel, Liberator or Dictator? Indianapolis: Bobbs-Merrill, 1959.

TABLE 19

VALUE OF PRINCIPAL EXPORTS, 1953-1954

Commodity	1953	1954
	(in thousands of U.S. dollars)	
Sugar:		
Raw	439,785	333,386
Refined	62,723	68,511
Molasses:		
Blackstrap	21,416	12,051
High-test	822	13,516
Invert syrup	3,726	4,063
Tobacco (unmanufactured)	34,540	34,311
Cigars	7,202	6,766
Nickel ore	14,119	12,756
Manganese ore	11,184	6,964
Copper ore	8,828	8,337
Iron ore	2,159	1,073
Chrome ore	1,093	123
Rayon tire cord	4,137	4,307
Rayon fiber and yarn	2,580	3,966
Yarn, other	2,248	494
Henequen fiber	1,449	1,298
Pineapples (fresh and canned)	3,107	2,696
Other commodities	19,226	24,430
Total Exports	640,344	539,048

Source: Department of Commerce, Bureau of Foreign Commerce, World Trade Information Service, _Basic Data on the Economy of Cuba_, Washington, D. C.: Government Printing Office, March, 1957, p. 18.

and intermittent, but significant, acts of violence[81] characterized the domestic scene, while internationally Cuba was under the political and/or economic suzerainity of the United States. Cuba's client status and the many blunders in American policy[82] evoked as much antagonism as did the scope of American investment, however beneficial it might have been. American paternalism had both altruistic and selfish motivations, neither of which engendered positive feelings toward the United States. Thus, the struggle for freedom, stability, and progress can be seen against a background of strident nationalism and a desire to come out from the shadow and tutelage of the "colossus to the North."

In addition, a strong resentment against the United States, probably overdeveloped in Castro and some of his followers, rested on a moral issue. Camilo Restrepo, a Colombian journalist has succinctly described this conflict.

> It is obvious that one of the factors of discord with regard to the United States, which appeared among the basic arguments for repelling Yankee influence on the island, was the fact that Cuba had converted itself into the playground of the North Americans: casinos, cafes, and women of easy virtue. Some writer called the island the big brothel of the United States . . . . Even more, during the Batista era, Havana had become an outpost of American gangsters who shared their profits with the dictator and the high functionaries of that regime.[83]

Fulgencio Batista in his first revolt had achieved domestic popularity via ardent nationalism and some Americans even feared the

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[81] See E. S. Stokes, "National and Local Violence in Cuban Politics," Southwestern Social Science Quarterly, September, 1953, pp. 57-63.

[82] See Henry Wriston, "A Historical Perspective," in Plank, pp. 1-44.

[83] JPRS 40,609, Camilo Restrepo, "A Colombian Looks at Fidel Castro's Cuba," Cromos, February 6, 1967, p. 19.

was a communist. However, he became progressively more conservative and was particularly careful with regard to American interests in Cuba. Batista's second revolt just prior to the elections of 1952 broke the constitutional continuity of the two previous administrations. He was a dictator and usurper of power, but again most compatible in his relations with the United States government and American business. As the years went by his regime rapidly deteriorated. Thus, graft and corruption, misuse of government power, political oppression, and inhuman cruelties became progressively more frequent. By the late 1950's the regime had alienated itself from the bulk of the population. With increasing defections from his military, Batista's government was doomed. Perhaps the regime's last base of support was the United States, although by late 1958 no American actions short of military intervention could have expected to save Batista from ouster.

It is significant to note that neither the American government nor the business community appreciated the magnitude of Cuban discontent nor the anti-American potentialities within the population and revolutionary leadership--at least not until it was far too late. Thus, in an exhaustive study for American investors in 1956 the Department of Commerce mentioned nothing concerning Cuba's potential political instability, but simply some problems concerning Cuban labor.[84] Despite the 1957 United States-Cuban agreement to implement the Investment Guarantee Program, not one contract had been signed and only two applications were under consideration by the time Castro's expropriations began. The

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[84]Department of Commerce, Investment in Cuba, Washington, D. C.: Government Printing Office, 1956.

United States was thus unprepared for the advent of a new regime, particularly one of Castro's character and philosophy.

When Batista's inevitable downfall became clear and doubts existed concerning Castro's suitability for leadership, the United States rather clumsily attempted, via a private citizen intermediary, to get Batista to yield power to a junta of moderates.[85] This effort bore no fruit. At the end of 1958 Batista fled the country and Castro assumed power on January 1, 1959. Belatedly, some interests in the American business community had offered Castro support, "but such support was too late and too small to have any favorable influence, assuming any such influences on Castro was at that time possible."[86]

Another point should be mentioned. This is the dual, yet pro-Batista policy which the United States attempted to follow in the uncertainties of the 1957-1959 period. While continued diplomatic and other support was given to Batista, some actions were also taken which aided the rebels as well. Nevertheless, great antagonism was created due to continued American ties with the Batista regime. As Herbert Mathews has written,

> We [United States] finally put an embargo on arms to the regime in the spring of 1958--but we left our military missions. Our officers in Cuba went on hobnobbing with some of the most hated associates of Batista, and our officers in Washington dined and decorated these men. The bitterness that this caused in Cuba is

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[85] See <u>Communist Threat to the United States Through the Caribbean</u>, Hearings, 86 Cong. 2 sess., Washington, D. C.: Government Printing Office, Sept. 2 and 8, 1960. Pt. 10.

[86] Sundelson, p. 102.

> incalculable. To the Cubans we were teaching Batista's henchmen how to kill other Cubans--and honoring them in the bargain.[87]

In retrospect, it does not appear likely that any moves by either the American government or the business community would have made a significant imprint on Castro--at least not enough to change his essential attitudes and probable actions. In fact, "Castro's emotionally unstable and unpredictable character . . . made him basically unapproachable."[88] Nevertheless, the United States promptly granted his government recognition and attempted to woo the new regime.

Whether Castro was or was not a communist prior to this take-over is a moot question, although it is doubtful that he was. Nevertheless, this question, however it is answered, is rather irrelevant since most of the subsequent political events are likely to have occurred and evoked the same responses regardless of Castro's particular ideological commitment. "Fidel Castro has been described as an eternal rebel, a romantic idealist, a messianic zealot burning to reform the world regardless of cost."[89] His goal was a new Cuba--independent of foreign powers, socially just, and economically prosperous. Many of the actions taken by his regime were likely to have occurred whether or not there had been an organized Cuban communist party or communist devotees among Fidel's closest associates. It was economic nationalism which prompted the confiscations of many businesses and the introduction of planning. The

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[87] Herbert L. Mathews, "Diplomatic Relations," in The United States and Latin America, second edition, H. S. Mathews, ed., Englewood Cliffs: Prentice-Hall, Inc., 1963, p. 166.

[88] Sundelson, p. 104.

[89] R. F. Smith, "Castro's Revolution," in Plank, p. 60.

desire for political integrity reenforced these domestic moves and at the same time made some drift from the United States inevitable.

The new government inherited an economic recession, a wave of strikes, communist agitation for wage increases, resistance from land-holding groups, and counterrevolutionary activities from discontents and splintering political groups. Castro assumed more and more personal power; promises which he made failed to materialize. Some confiscation of American properties had occurred and the United Stated government was pressuring for "just compensation," which a rapidly deteriorating Cuban economy could not make at that time. Castro would not ask for American aid which he felt would have strings attached. The Cuban leaders were rather shocked and bewildered by the hostile American press and radio reactions to the executions which had occurred in Cuba, although it is perhaps a small wonder that the bloodbath was not greater. In addition, the leadership "was resentful of charges of communism before they were justified . . . ."[90] Castro himself had been personally offended by a conversation with two United States Senators and his interrogation by a Congressional Committee.[91] Thus, suspicion and further resentment developed.

As the regime consolidated its power, confiscated Cuban and American properties, and evidenced a rather cool, and sometimes verbally vituperative attitude toward the United States, relations between the

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[90] Mathews, p. 158.

[91] Javier Pazos, "Cuba: Was a Deal Possible in '59?" New Republic, January, 1963, pp. 10-11.

two countries began to deteriorate seriously. By the fall of 1959 the government had made a distinct move to the left. Earlier in the year the Cuban communist party, which never previously supported Castro, decided to give the regime its full backing. Robert Smith aptly describes the party's new role:

> Castro's obsession with unity and loyalty to the revolution and himself is a key to understanding not only why the Communists gained in influence but also why some in the revolution who denounced Communism were themselves denounced by Castro for creating dissensions in the revolution . . . . The Communists contributed not only their support and organizational structure but also a packaged ideology for the reorganization of society along the lines of a single class. This helped to fill a kind of ideological and structural vacuum in the revolutionary movement and to provide a philosophical grounding for Castro's own search for identity.[92]

In the fall of 1959, as Castro's economic situation began to deteriorate (as were relations with the United States) the Soviet Union offered to buy 3,330,000 tons of Cuban sugar, thereby making its first move in support of Fidel. This, of course, marked the emergence of cold war calculations into Cuban-American affairs, giving Castro an additional sense of independence from the United States and further alienating the American government and people.

In February, 1960, Anastas Mikoyan visited Havana, inaugurating a Soviet Exhibition and concluding a trade treaty with Cuba. This agreement stipulated Soviet purchases of five million tons of sugar and other primary products, to be bought over a five-year period. It thereby placed the Soviet Union in the position of Cuba's second largest customer (behind the United States), a rather anomalous situation in

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[92] Smith, p. 64.

terms of historical trade patterns and location theory. The purchases were to be financed via 20 percent hard currency payments and the balance in deliveries of Soviet oil and machinery. In addition, Cuba was granted a $100 million credit, earmarked for the purchase of Russian goods. In May, formal diplomatic ties with the Soviet Union were established and economic arrangements with several eastern European states announced. In Washington, all these actions were very dimly viewed, no doubt to Castro's glee.

During this period of time--the spring of 1960--further expropriations of American property occurred and the first shipments of Soviet oil arrived. Thereafter ensued the "oil war" between the Cuban government and the three foreign-owned refineries which had refused to process Soviet crude oil. Concerning this conflict, James O'Conner has written:

> What had developed was an authentic conflict of interests which might have been compromised under more propitious circumstances. In the context of the Cuban revolution in the summer of 1960 a compromise was clearly out of the question. The companies fully expected to be taken over sooner or later and decided to force a showdown over the issue of Soviet crude . . . . Whether or not the Cuban government intended to nationalize the refineries at some future date, the fact that the companies expected to be nationalized shaped events by forcing the showdown.[93]

On June 28, the three refineries were nationalized. In early July, in a move which had already been much debated in Washington and more or less anticipated in Havana, the United States suspended what remained of Cuba's 1960 sugar quota. On the same day, Cuba announced the authorization for the nationalizing of all United States properties

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[93] James O'Conner, "Industrial Organization in the Old and New Cubas," Science and Society, Spring, 1966, p. 172.

on the island, a policy which was implemented during the following several months. These nationalizations, the overtures toward the Soviet orbit, and virulent anti-Americanism strained political ties to the breaking point. In early January, 1961, diplomatic relations between the two nations were severed.

This decaying political relationship and the accompanying suspension of the sugar quota combined to rather significantly decrease trade between Cuba and the United States during the 1959-1960 period. In October, 1960, the United States placed an embargo on exports to Cuba (medical supplies and foodstuffs formally were excepted). From 1961 onward, pressure was placed upon American allies to cease their trade with the Castro regime. This pressure, combined with Castro's own actions and Castroite Latin American subversion, resulted in Cuba's alienation from all Latin American states by 1964 (with the exception of Mexico). In March of that year the Organization of American States declared sanctions against Cuba for agression against Venzuela.

Thus, the loss of United States trade and that of most Latin American nations, combined with Cuba's growing absolute volume of trade with the communist bloc, resulted in an entire restructuring of traditional Cuban trade patterns.

Boycott Implementation and Maintenance

In July, 1960, the United States suspended the remainder of Cuba's sugar quota, some 700,000 tons. In October of that year an embargo on all exports to Cuba was declared, with the exception of medicines, certain foodstuffs, periodicals, and gift parcels. The embargo was

initiated under the authority of the Export Control Act of 1949 which allows the President to "prohibit or curtail exports from the United States, its territories, and possessions . . ."[94] for the purposes of national security, foreign policy and short supply. The Department of Commerce summarizes American trade policy toward Cuba as follows:

> Our general policy toward trade with Cuba is to keep such trade at an absolute minimum consistent with essential or critical humanitarian considerations. In support of this policy normal gift items, such as food, medicine, and clothing, may be sent to Cuba under . . . general license for gift shipments . . . . Personal baggage and certain publications may also be exported under general license. Any other export to Cuba would require a validated license, which generally would be denied.[95]

Under present policy, then, no American citizen is allowed to either import from or export to Cuba, unless granted a specific license, which is seldom the case.

These regulations, administered by the Office of Export Control of the Bureau of International Commerce, coupled with Cuban asset control rulings, administered by the Treasury, attempt to prevent any and all commercial or business dealings between Cuba and the United States. These regulations are binding upon Americans whether they reside in the United States or abroad and also affect American subsidiaries abroad if they have American officers or directors. As an example, a Belgian subsidiary of Sperry Rand was recently prevented from supplying Cuba with $1.2 million of farm equipment.

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[94] Office of the Secretary of Commerce, Export Control, 83rd Quarterly Report, Washington, D. C.: Government Printing Office, October, 1968, p. 1.

[95] V. H. Michaelis, Office of Export Control, A Summary of U. S. Export Control Regulations, revised, Washington, D. C.: Government Printing Office, October, 1967, p. 3.

In addition to the above regulations concerning Cuban-American trade, the Export Control Act also relates to third parties. Thus, a businessman in another country will lose his import privileges if he willfully sends American goods to Cuba. The purpose of this, of course, is to eliminate Cuban importation of United States products via third parties which reexport to Cuba. The regulation also applies to foreign manufacturers of goods whose major components are American parts.

Another set of regulations deals with shipping and transport facilities of third party nations. The Foreign Assistance Act of 1961 and its subsequent amendments prohibit "the United States from providing aid to any country which fails to take appropriate steps to prevent ships of its registry from transporting equipment or commodities to Cuba"[96] as long as it is governed by the Castro regime. Under this legislation ships and aircraft of 19 "noncommunist" nations were found to have visited Cuba since October 23, 1962, the date on which the first Cuban shipping restriction became effective. "Of these countries, 14 were found to have taken 'appropriate steps' to 'halt' such traffic."[97] These included Lebanon, Greece, Norway, Italy, Denmark, Sweden, West Germany, Japan, Turkey, the Netherlands, Panama, Finland, Canada, and Mexico. The United States almost immediately terminated aid to three noncomplying countries, Great Britain, France, and Yugoslavia, although the aid programs that ended were rather insignificant residual

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[96] John R. Wilkins, "Legal Norms and International Economic Development: The Case of the Cuba Shipping Restriction . . . ," California Law Review, October, 1967, p. 977.

[97] Ibid., p. 978.

amounts which had been tapering off for some time. The American government then "announced that it would make no new commitments to its substantial programs in Spain and Morocco,"[98] the two remaining offending nations. However, upon assurances by these two governments that they were taking appropriate steps to comply with the American legislation, accord was soon reached.

Still another set of regulations concerns foreign flag vessels and their owners. Vessels calling on Cuban ports are immediately listed by the Maritime Administration and lose their eligibility to carry United States government financed cargoes, which include foods shipped under Public Law 480 and any other materials in connection with American aid programs. This blacklisting can be terminated by the appearance of the foreign shipper at a United States Consular Office, at which time a commitment must be made to cease all Cuban trade as soon as the existing charters expire. With this declaration (and subsequent adherence) the vessel and company will be free to resume carrying American cargoes. The possible loss of government-related cargoes plus a variety of pressures upon private businesses not to utilize ships which trade with Cuba represents a considerable economic force against which the gains from trade with Cuba must be matched. For the larger and more significant firms a comparison of gains is hardly necessary as the United States market is incomparably more important.

Nevertheless, from 1963 through May, 1967, there were 1,428 freighters visiting a Cuban port which were blacklisted by the Maritime

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[98] Ibid.

Administration. This listing did not include Soviet flag ships, although Polish and Yugoslavian vessels were enumerated. Ships registered in Great Britain headed the list (575), with Lebanon second (247), and Greek registries third (192).[99] In general, the free world firms providing transport services for Cuba are small outfits which operate as modern privateers. The names of their vessels are changed frequently as are the ship registeries, thereby making it possible for a ship to serve both markets without detection. Since no one nation may be the major customer of a small firm, the relatively high profits on a Cuba run are rather attractive, while the loss of American cargoes may be readily compensated for by cargoes of another state. However, by January, 1969, there were only slightly more than 200 vessels on the current blacklist, indicating that many of those previously blacklisted had been removed by ceasing their Cuban trips.

Finally, diplomatic representations have been made to all friendly governments in an effort to persuade other countries to cooperate with our policies and economically isolate Cuba.

Naturally the other nations of the Western Hemisphere, particularly the Latin American nations, were among the third party countries to which many of the above regulations applied. In addition, political relations between the Castro regime and several other Latin American states became strained, a factor separate from United States pressures which also tended to decrease Cuban trade within the hemisphere. Finally, in July, 1964, the Organization of American States officially suspended

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[99] "Cuba: 1,428 Freighters," Panorama Económico Latinoamericano, English edition, #211, Havana, 1967.

all trade and shipping with Cuba (again excepting certain foods and medicines for humanitarian purposes).

That these efforts were enormously successful in economically isolating Cuba from the bulk of her traditional trading partners is quite obvious from official trade statistics for subsequent years. Table 20 indicates the rapid decline in Cuba's trade with the rest of the hemisphere as well as the island's previous great dependence upon these markets and supply sources. Over 80 percent of Cuba's imports in 1958 came from the United States and Latin America--more than 83 percent if Canada is included in the talley. During 1960 the socialist countries increased their trade with Cuba while Cuba's absolute volume with the United States and Latin America declined. Nevertheless, in 1960 these latter nations still supplied over 55 percent of Cuba's imports. For 1962, the first full year of the boycott, the figure dropped precipitously to 5.5 percent and then declined to less than 2 percent the following year. The overwhelming majority of this trade had, of course, been with the United States. However, it should, perhaps, also be noted that "the interruption in Cuba's petroleum purchases from Venzuela alone represented a reduction of more that $60 million between 1958 and 1962 and a contraction of 75 percent in its [Cuba's] total volume of imports from Latin America."[100]

In terms of export markets, the Western Hemisphere's share of Cuba's total exports (inclusive of Canada) in 1958 was almost 72 percent.

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[100]Economic Commission for Latin America, Economic Survey of Latin America, 1963, New York: United Nations, 1965, p. 274.

TABLE 20

CUBAN TRADE WITH THE UNITED STATES AND LATIN AMERICA
1958-1963

Export Destination	1958		1959		1960		1961		1962		1963[a]	
	Value	% of Total Cuban Exports	Value	% of Total Cuban Exports	Value	% of Total Cuban Exports	Value	% of Total Cuban Exports	Value	% of Total Cuban Exports	Value	% of Total Cuban Exports
	(millions of dollars)											
United States	$490.0	66.8	$442.7	69.4	$326.3	52.8	$30.2	4.8	$4.2	0.8	$---	---
Latin America	20.5	2.8	31.4	4.9	14.6	2.4	12.6	2.0	5.3	1.0	5.3	1.3
Totals	$510.5	69.6	$474.1	74.3	$340.9	55.2	$42.8	6.8	$9.5	1.8	$ 5.3	1.3

Import Origin	1958		1959		1960		1961		1962		1963	
	Value	% of Total Cuban Imports	Value	% of Total Cuban Imports	Value	% of Total Cuban Imports	Value	% of Total Cuban Imports	Value	% of Total Cuban Imports	Value	% of Total Cuban Imports
United States	$542.5	69.8	$458.5	67.9	$281.5	48.5	$23.7	3.7	$ 0.6	0.1	$---	---
Latin America	85.1	11.0	71.7	10.7	42.2	7.3	11.8	1.8	14.0	1.8	4.9	0.9
Totals	$627.6	80.8	$530.2	78.6	$323.7	55.8	$35.5	5.5	$14.6	1.9	$4.9	0.9

[a] January-September.

Source: Economic Survey of Latin America, 1963, p. 273.

Cuban exports to the United States declined by approximately $460 million from the 1958 level to that of 1961. During 1962 there were still some deliveries of Cuban tobacco in trickling amounts, although by 1963 the trade had ceased. Thus, the United States and Latin American markets fell in 1963 to a new low of 1.3 percent of Cuba's total exports. Of the amount exported to Latin America, the major portion was concentrated in one or two countries.

It is, therefore, abundantly clear that Cuba's overt trade with the rest of the Organization of American States countries has been almost completely terminated. American exports to Cuba in 1966 totalled $6,926, and $16,695 in 1967.[101] The bulk of this latter figure was for the delivery of necessary items for the Pan American Health Organization. These amounts, of course, are too little and insignificant for further discussion.

Despite the fact that Cuba's direct exchange with the hemisphere (excluding Canada) has been all but terminated, it is not necessarily the case that United States and/or Latin American products have ceased to reach Cuban shores. The possibility exists that American regulations may be contravened, either by United States citizens or by those in third countries. While the extent of such clandestine operations is of necessity indeterminable, some data are available which shed light on these activities.

The United States Department of Commerce has denied American export privileges to more than a dozen firms and/or individuals for

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[101] Export Control, 83rd Quarterly Report, p. 6.

transporting (or attempting to transport) American goods to Cuba. Through 1967 the value of goods known to be received in Cuba was slightly in excess of three-quarters of a million dollars, a very small figure. Export privileges were denied to citizens and companies of the Netherlands, Canada, Great Britain, Mexico, and of course, the United States. In addition to the value of goods known to have reached Cuba, moderate quantities of items have been seized both in this country and abroad before their final shipment to Cuba. The principal kinds of goods involved here have been automotive, truck, and tractor parts, diesel parts and engines, aircraft and harvester parts and equipment, and sugar and oil refinery parts and equipment. It is believed that a Cuban agency had been established--Transimport--for the express purpose of importing American replacement parts via clandestine means.

It is certain that there have been a great many more American items imported into Cuba, that the reported figures are merely the top of an iceberg, the greater part of which lies hidden. Thus, in one action in which five persons lost their export privileges due to transshipment to Cuba, the Commerce Department reported that its "Discovery of the scheme prevented exportation for delivery to Cuba of more than a quarter of a million dollars worth of equipment urgently needed for the Cuban economy."[102] Others have been charged by the Department with supplying "substantial" or "large quantities" of American equipment, although no quantitative estimates of just how much were provided. There is substantial evidence that considerably more transshipments, especially via

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[102] Bureau of International Commerce, "Five Lose Export Privileges in Cuban Shipments Case," April, 19, 1966.

Mexico, Canada, Europe, and perhaps Japan, occur, although sufficient evidence for successful prosecution is often difficult to obtain. Thus, of the new equipment installed in early 1969 in one Cuban sugar mill, the major item was a diffusion system (built by a French concern) which utilized an American made reduction gear motor as one of its essential parts.[103]

The most common means of contravening the export regulations is that of the shipment of American goods to foreign companies which then either directly reexport to Cuba (despite their affidavits to the contrary) or sell to other firms which then export the merchandise to Cuba. Detection of these activities is difficult due to the multitude of transactions, companies and countries involved as well as the easy opportunities to hide such activities. Frequently "dummy" organizations are established for the express purpose of reexport to Cuba; in other instances the Cuban operations are simply one of many. There have even been instances in which foreign firms with American business ties established dummy companies to export their own (non-American) products to Cuba because they feared that direct Cuban contacts might offend their American customers or bring problems with the United States government.[104]

These clandestine operations are apprently very profitable as the Cuban authorities have been in desperate need of many American items. In 1963 the Department of Commerce reported the following:

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[103] Economic Research Bureau, Inc., Economic Intelligence Report: Cuba, January 31, 1969, p. 1.

[104] "A Gloomy Castro Faces More Economic Woes," Business Week, June 25, 1966. p. 58.

> Since the U. S. imposed an embargo on exports to Cuba . . . demand for many types of commodities in Cuba has become so great as to put an extraordinary profit premium on transactions via intermediaries in third countries.[105]

Countries like Mexico and Canada, which have maintained trade relations with Cuba and are within reasonable geographical proximity seem to be favored areas of reexport. The British Caribbean Islands have also been a source of supply. The importance of American goods and the possible profit involved is perhaps indicated by the fact that items of significant weight, such as deisel engines, have been shipped from the United States to Rotterdam and then back across the Atlantic to Cuba. Although only one case involving a Miami location has been reported, it is highly likely that there have been other Florida-area operations.

The problem in attempting to quantify the volume of transshipments is that it is impossible to even reasonably guess at the amount and a generalization from the value of merchandise seized or known to have reached Cuba cannot validly be made. It is reported that a group of Soviet economists who have been unhappy with Cuba's continued reliance upon American products estimated that in one month alone--October, 1964--Cuba imported $160,000 of smuggled United States products.[106] Again, however, assuming this figure to be valid, it is not possible to generalize because it is not known whether this represented a normal or an atypical month.

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[105] Bureau of International Commerce, "Three Mexican Citizens Denied U. S. Privileges," August 8, 1963.

[106] JPRS 29103, Friedrich Steiner, Diario Carioca, February 16, 1965.

What is certain is that Cuba has found itself in desperate need of certain American products and has been willing to pay heavy transport costs and contraband profits to receive these goods. Secondly, there has been a rather steady stream of American goods flowing into Cuba, especially in the first five years of the 1960's, although even the approximate amounts cannot be estimated and are probably known only by a few Cuban authorities. Thirdly, American surveillence has been increased and this has been accompanied by a decreased volume of smuggled goods in recent years, although this decreased volume can also be accounted for by other factors, some related to the boycott and others purely internal.

Economic Impact of the Boycott

Structure of Trade

Table 16, page 81, has already indicated the radical change in the direction of Cuba's foreign trade. The traditionally predominant volume of transactions with neighbors in the Western Hemisphere was reduced to next to nothing by 1962. Conversely, trade with those portions of the globe most distant became most important. Table 21 provides a breakdown of Cuba's trade with the socialist bloc and nonbloc nations (to be referred to as Western countries, whether Occidental or not) for the 1959 period onward.

It is important to note the relatively minor role to which the Western nonboycotting countries have been relegated in supplying Cuba's imports since the embargo. Viewing this small proportion in economic terms alone, it is difficult to understand. It is reasonable to conclude

TABLE 21

CUBAN FOREIGN TRADE
1959-1966

	1959	% of Total	1960	% of Total	1961	% of Total	1962	% of Total	1963	% of Total	1964	% of Total	1965	% of Total	1966	% of Total
								(millions of dollars)								
Exports to:																
Nonbloc nations[a]	$623.9	97.8	$468.3	75.8	$166.6	26.7	$ 93.9	18.0	$177.3	32.6	$291.4	40.8	$148.0	21.6	$120.0	20.0
Socialist nations	13.9	2.2	149.9	24.2	458.3	73.3	426.8	82.0	366.5	67.4	422.4	59.2	538.0	78.4	480.0	80.0
Total	$637.8	100.0	$618.2	100.0	$624.9	100.0	$520.7	100.0	$543.8	100.0	$713.8	100.0	$686.0	100.0	$600.0	100.0
Imports from:																
Nonbloc nations[b]	$740.4	99.7	$518.7	81.3	$211.0	30.0	$130.5	17.2	$163.6	23.2	$ 331.6	32.5	$208.0	24.0	$185.0	21.4
Socialist nations	1.9	0.3	119.2	18.7	491.6	70.0	629.0	82.8	703.7	76.8	687.2	67.5	657.0	76.0	680.0	78.6
Total	$742.3	100.0	$637.9	100.0	$702.6	100.0	$759.5	100.0	$867.3	100.0	$1,018.8	100.0	$865.0	100.0	$865.0	100.0
Trade Balance																
With nonbloc nations	-116.5		- 50.4		- 44.4		- 36.6		13.7		- 40.2		- 60.0		- 65.0	
With Socialist nations	12.0		30.7		- 33.3		-202.2		-337.2		-264.8		-119.0		-200.0	
Overall	-104.5		- 19.7		- 77.7		-238.8		-323.5		-305.0		-179.0		-265.0	

[a]U.S. included in 1959-1962 figures.

[b]U.S. included in 1959-1963 figures.

Sources: "Cuba's Foreign Trade," Panorama Económico Latinamericano, No. 185, 1967, pp. 4-9; Economic Survey of Latin America, 1963, p. 278; and Economic Research Bureau, Inc., Economic Intelligence Report, Vol. II, No. 9, May 11, 1967, p. 5.

that except for special circumstances, Cuba's imports would be diverted to markets which are closest to her, thereby minimizing transport cost. Thus, the nations of Western Europe--the EEC and EFTA--appear as logical suppliers rather than the more distant countries of Eastern Europe and the Soviet Union. Canada, too, must also be included as a natural source of supply in lieu of the United States. In the Far East Japan is a much more likely supplier than Communist China. This conclusion is reenforced by the existence of historical trade ties between these nations and Cuba, ties far broader, older, and more extensive than the very meager economic relations which existed between Cuba and the socialist countries prior to the 1960's. A third factor in this consideration is the fact that tastes, consumption patterns, and technological needs in Cuba all pointed to Western nations rather than the bloc states. Thus, tractors and machinery from Canada, Britain, Spain, or France were more likely to suit Cuba's industrial and technological needs (previously supplied by the United States). In terms of product complementarity, the Western nations also appear to be by far the more likely supplier. Finally, in terms of simple communications, Russian and the eastern European languages were rather alien to Cuba, whereas English and Spanish are both readily useable in much of the West and already mastered by Cuban traders.

Given this host of economic criteria, it must be asked why Cuba's trade did not in practice orient itself to these logical alternate sources of supply? During the 1949-1958 period imports from these areas were 19.9 percent of Cuba's total imports (see Table 16, page 81). Over

the 1962-1964 period the figure increased less than 4 percent,[107] a very modest rise. The answer is two-fold: political considerations resulting from Cold War politics and a lack of hard currency earnings. These factors will be dealt with in more detail shortly.

A second item of importance which the table above shows is the unfavorable trade balance Cuba has with socialist bloc. Previously, trade with these countries was very small and resulted in balances favorable to Cuba. The 1960's witnessed a vast increase in trade volume and trade balances which were unfavorable. The East rather than the West had become Cuba's predominant supplier.

To return to the question recently raised, why did Cuba's trade orient itself to the socialist countries when economic criteria strongly suggested nonboycotting Western nations? The basic reason is that political considerations, which warped trade patterns originally via the United States boycott, again interfered, preventing the second-best economic solution. More specifically, the political factor involved was the large-scale Soviet and bloc economic, military, and technical aid which was made available.

A comprehensive study of the economic aspects and impacts of Soviet aid to Cuba has yet to be written. The attempt will not be made here. However, the highlights of this trade relationship and several of the economic results must be enumerated.

In this regard, two previously demonstrated propositions merit mention once more. First, the American embargo forced Cuba to other

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[107] "Cuba's Foreign Trade," p. 5.

markets. Second, all other circumstances remaining the same, Western countries rather than socialist were the economically rational choice. As will later be shown, the efficacy of the boycott has so reduced the hard currency earning potential that a full replacement of imports by new Western suppliers was not likely. Nevertheless, relations with Western suppliers did not mushroom at all, principally due to the availability of socialist aid and credits which made it more economic to trade with the "third-best" group. Appendix A summarizes bloc economic aid and credits to Cuba for the 1960-1965 period. These credits and the trade agreements have resulted in a total import surplus for Cuba of roughly $900 million (exclusive of military aid). Thus, the frequently quoted "million-dollars-a-day" figure abounding in Western periodicals is an exaggeration. Nevertheless, this import surplus is prodigious. To the extent that Cuba's debt to the supplying countries will not be paid, as is most likely, the import surplus represents bloc supplies without a quid pro quo.

This trade originated and has generally been based on political rather than economic criteria. The timing of the trade agreements, their nature and the goods included (as well as method of financing) coincide so remarkably with certain events both in the East-West conflict and in the Sino-Soviet feud that the political basis of the trade relationship cannot be disputed. A few examples of the economic inconsistencies involved will suffice to demonstrate that economic criteria did not serve as the basis for trade.[108]

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[108] For a more detailed account of the political basis of trade, see D. Losman, "Soviet Aid to Cuba: Meaning, Methods, and Motives," to be published in the Duquesne Review, Fall, 1969.

In the first place, with regard to bloc imports from Cuba, the great distances involved suggest that alternative suppliers with costs no less than Cuba's could be found (assuming that a need or demand for these Cuban products actually existed). In the second place, the relatively high price paid by the Soviet Union for Cuban sugar--a price higher than the expected (and actual) world market prices which have generally prevailed--coupled with the fact that the Soviet Union, itself one of the world's largest sugar (beet) producers, is presently attempting self-sufficiency in this item make the sugar agreements economically unrealistic. Indeed, a relevant question to ask is this: Just what could the Soviets have intended to do with the Cuban sugar purchased? Fortunately, from the Soviet viewpoint, Cuba has generally not been able to fulfill her portions of the sugar agreements so that the U.S.S.R. has not had to absorb all the amounts contracted. Nevertheless, there has been evidence that imported Cuban sugar has been reexported,[109] thus making Cuba's other sugar sales more difficult and indicating that the amount received were unsuitable to the "material balances" needs of Soviet planning. Although Cuba has continually emphasized the need for an international socialist division of labor within the bloc--a division in which Cuba would be the main supplier of sugar--it has proved itself an unreliable source of supply and therefore particularly undesirable from the perspective of autarkic-oriented bloc planners. In fact, rather than depending upon Cuba, the bloc nations

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[109]See U. S. Senate, 89th Congress, 2nd Session, Committee on Judiciary, Hearings on Cuban Refugee Program, Pt. 3, 1966, Washington, D. C.: Government Printing Office, pp. 229-230.

have been increasing their own sugar production, with several being net exporters.

Were economic criteria the only basis of trade, it would be difficult to understand the Soviet Union's releasing Cuba from its contractual sugar obligations (as it did in 1963) when the free world market price was extremely high. Nominally, the Soviets have for years been paying higher than world market prices. By allowing Castro to divert his exports from the U.S.S.R. to the free world market the Soviet Union lost the opportunity to reexport Cuban sugar at a profit, or, if needed domestically, to purchase sugar at considerably below existing market values. One can only conclude that the Soviets either did not need the sugar in the first place, are economically irrational in their trade policies, or granted a Castro request to be released so that Cuba might earn a windfall in hard currency earnings. Whichever alternative (the latter seems to have been most significant), it is obvious that political rather than economic criteria have been at work.

Finally, the political basis of trade and the essential reason for Soviet sugar purchases is clearly demonstrated by the statement of an American Marxist who worked with the Castro regime:

> The Soviet Union was financing Cuba's trade deficit. . . . Before the Cuban Revolution, large sugar imports might not have been desirable from a Soviet economic point of view. But now the choices were not the same. Better to take sugar . . . than just to continue financing the deficit.[110]

The major point to be emphasized is that the basic cause of Cuban-bloc trade has been the grants and credits made available by the socialist

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[110] Boorstein, p. 199.

countries and their politically inspired willingness to purchase Cuban products. Some of the major economic results of this trade with the bloc, to be elaborated upon shortly, merit listing:

1. Bilateral channeling of trade;
2. Increased transport cost for Cuban imports;
3. Delays and time lapses between orders and deliveries;
4. Lower quality imports for Cuba;
5. Creation of the need for investment in storage facilities;
6. Spare parts shortages;
7. Unfamiliarity of the Cuban people with the technology of the new imports and their best use;
8. The need to change traditional consumption patterns to conform with the different goods of the new sources of supply;
9. The change-over to the metric system and the language and cultural barriers which had to be transcended; and
10. A lack of complementarity between Cuba's needs and the bloc's export products.

A second major reason why Cuba's trade, particularly imports, did not become diverted to the Western nations is the lack of hard currency earnings. The loss of the United States market enormously damanged Cuba's hard currency earning ability. In particular, the loss of the American sugar market was extremely damaging since Western Europe and other potential markets already had traditional sugar suppliers to whom preferences were granted. Without large-scale purchases from the socialist bloc--which essentially were barter agreements rather than hard currency

deals--Cuba would have had to sell in the world sugar market. This market is a rather small one as a percentage of world production, a residual in which the buying and selling of sugar not already contracted between countries takes place. On this market price fluctuations are frequent and wide. For this reason, most large sugar exporters have preferred contractual arrangements rather than risking the sale of the bulk of their output on the world market. Since world market prices have been rather low (excepting 1963-1964) as well as fluctuating, recourse to this market for Cuba's entire crop (which would have depressed prices further) would have resulted in very low hard currency earnings. In short, sales to the bloc and/or the world sugar market, both due to the boycott, would result in substantially decreased hard currency earnings.

An investigation of Cuba's actual hard currency earnings during the early 1960's bears out this hypothesis. Thus, during 1959 almost 98 percent of export earnings, or $623.8 million, were hard currency receipts. In 1960 this figure fell to $476 million and declined even further in 1961 to $166.8 million. By 1962 Cuba had reduced its hard currency reserves by 30.6 percent to obtain needed items from hard currency countries.[111] Favorable world sugar market prices increased trade with the dollar earning countries during the 1963-1964 period. These earnings were quickly spent by the Castro regime for items sorely needed in Cuba. The purchases were from Western nations rather than

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[111] Economic Intelligence Report, Vol. II, No. 9 (undated), p. 2.

the socialists, although quite obviously hard currency is acceptable in either camp.

It was also during this period that the Soviets released Castro from a portion of his sugar committment for the purpose of diverting Cuban sugar to the then buoyant world market. In addition, the availability of Western credits--particularly in England and France--also stimulated Cuban purchases, although these credits were essentially economic arrangements by which certain Western businesses thought they might find a steady market in the vacuum caused by the American embargo. Nevertheless, the uncertainties of Cuba's earning and payment capacities limited the volume of credit extended. By 1965 hard currency earnings had decreased due to unfavorable sugar developments; imports, however, did not fall as greatly and the trade deficit with hard currency areas increased from a meager figure of less than a million dollars in 1963 to $60 million in 1965.[112] Western credits were being utilized to their fullest.

In 1966, the lack of hard currency earnings (after 1964 Soviet trade became 100 percent barter, thus eliminating this small source of hard payments) increased Cuba's dollar area trade deficit to $65 million for that year and the prospects for further credits dimmed. Hard currency earnings that year were estimated to be approximately $110 million, a far cry from the over $600 million of seven years earlier.[113]

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[112] Ibid., p. 3.

[113] Hearings on Cuban Refugee Program, p. 231.

Still another indication of the boycott's impact upon Cuba's capacity to import is the number of Western vessels making stops at Cuban ports. The boycott's ability to decrease Cuban hard currency earnings, and therefore, Western imports, is reflected in the diminishing number of Western vessels docking at Cuban ports, especially after 1964. As has already been indicated, the channels have and do exist for Cuba to import many American goods, despite the boycott; and, of course, purchases from the nonboycotting nations of the West are still available, if Cuba possesses the means of payment. Table 22 shows the number of Western ships stopping in Cuba in selected months over the 1963-1967 period. The general decline shown is still another indication of the boycott's effect upon trade patterns--this time its capacity to strike at Cuba's ability to import from third party countries.

A nation's import capacity, then, is a function of its export earnings (or gold production). Cuba's earnings were dealt a severe body blow by the loss of the American market--sugar, tobacco, and tourism, in particular, and the significant internal effects of the embargo upon production and growth (to be discussed shortly). Recalling that Cuba's economy is essentially a sugar monoculture, imports are vitally essential for economic health and maintenance of the standard of living. Indeed, "almost all development in Cuba requires foreign exchange."[114] Imports generally equalled 25-30 percent of the national product and came overwhelmingly from the United States (see Tables 15 and 16, pages 79 and 81). The significance of imports is summarized by Boorstein, who writes:

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[114] Boorstein, p. 211.

TABLE 22

FREE WORLD SHIPPING TO CUBA
SELECTED MONTHS, 1963-1967

Year	Total Number of Trips by Months					
	April	May	August	September	October	Total
1963	70	39	24	26	26	185
1964	30	33	41	34	23	161
1965	22	24	20	14	21	101
1966	25	25	14	17	7[a]	88
1967	23	18	17	15	26	99

[a]Hurricane Inez hit Cuba this month.

Source: Economic Research Bureau, Inc., Economic Intelligence Report: Cuba, Vol. I, No. 1 (undated), p. 10; Vol. II, No. 11 (undated), p. 6; Vol. II, No. 12 (undated), p. 8.

> About $125-150 million worth of basic foodstuffs were imported, including wheat and flour, lard and other fats and oils, rice, beans, peas, onions, garlic, potatoes, and codfish. Some of these, like wheat, could not be produced at all in Cuba; others could not . . . be produced in the required amounts. Tens of millions of dollars of medicines and drugs had to be imported . . . . Industry needed over $250 million of imported parts and raw materials . . . The buses, railroads, telephone and electric power industries, television and radio stations, and water supply systems needed spare parts . . . . And finally, thousands of miscellaneous small articles were needed--razor blades, pencils, toothbrushes, screws, electric power plugs and switches, files for sharpening the machetes of the cane-cutters.[115]

The balance of payments position, then, but most importantly the hard currency deficit, has proved the major stumbling block to Cuban development.[116] While it is very true that the institutional reorganizations, political oppression, loss of trained people, poor weather, and a host of other factors have contributed to output declines, there have been major offsetting factors such as the mobilization of large segments of previously unutilized resources, the positive effects upon output of those enthused and supporting the revolution, increased literacy, etc. The net effect of these diverse factors is difficult to determine. However, the constraint established by the loss of dollar earnings is real and even larger than at first appears due to the fact that the regime made significant efforts to conserve hard currency. Thus, exchange control was quickly introduced, luxury imports curtailed, Cuban tourist expenditures severely reduced, an economizing and

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[115] Ibid., p. 62-63.

[116] This is a continuing theme in Boorstein's work. For an example, see pp. 83, 86, and 195. It should also be noted that the expropriations of American property represented a balance of payments windfall in that dividend and income remittences abroad, formerly substantial debit items, ceased.

reclamation campaign begun for all imported products, and a host of similar measures implemented. Nevertheless, a severe shortage of hard currency has persisted.

Imports, in short, are vital not only to the well-being of the general population, but act as the springboard for growth inasmuch as they have been the major source of physical capital formation. By denying Cuba access to the American market and by reducing its hard currency earnings, the American embargo was severely damaging. In addition, there were internal effects of the boycott which reduced productive capacity as well as difficulties encountered with the new suppliers. These will now be investigated in the next section.

Effects Upon Domestic Economic Structure and Production

It is the practice of many social scientists in their theoretical calculations to assume *ceteris paribus* conditions. After conclusions are reached in theory they tend to be modified by the failure of assumed conditions to exactly coincide with the real world. *Ceteris paribus* assumptions are useful in isolating the impact of particular variables. However, the greater the number of variables involved and the greater their variability, the more difficult it is to attribute any results to the particular factor under study. In the case of Cuba, the *ceteris paribus* assumption is extremely difficult due to the inordinate number of unique conditions and changing variables involved. Ideally, the performance of the Cuban economy should be studied before and after the boycott, assuming constant technology, political conditions, institutional arrangements, and similar factors. A comparison between the

projected condition of the economy without the boycott against the actual condition could then be made.

However, the very conditions which gave rise to the boycott in the first place introduced so many changing factors that a simple comparison as indicated above cannot be made. Indeed, the problem is similar to that of unscrambling an egg and it is not likely that realistic quantifiable magnitudes for each aspect can be discovered. To the extent that this is so, only the direction and consequences of the boycott will be demonstrated without attempts at numerical measurement. As Hawkins has suggested:

> Estimating the cost of sanctions . . . involves measuring what has been achieved and maintained against what might have been achieved in the absence of sanctions. It is therefore a thoroughly speculative exercise . . . .[117]

Measurement difficulties are compounded, of course, by any and all deficiencies in data. However, in addition to normal statistical vacuums, a study of economic sanctions almost invariably encounters the problem of contrived data vacuums, and perhaps, deliberate misrepresentations.

Both the theoretical and descriptive discussions presented so far have indicated the importance of foreign trade. It is, therefore, to be expected that the loss of markets and suppliers will result in a slowing of economic activities, if not an actual downturn. In investigating conditions in Cuba, however, the multitude of other factors which may also have retarded activities must be considered. A number of these will be listed.

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[117] A. M. Hawkins, "The Rhodesian Economy Under Sanctions," Rhodesian Journal of Economics, August, 1967, p. 59.

1. Radical reorganizations in the institutional structure of the Cuban economy--nationalizations, income redistributions, price fixing, introduction of planning, etc.
2. Inadequacies of planning--lack of adequate statistics, unrealistic goals, improper allocation of resources, untrained planners, etc.
3. Political reorganizations which to some degree impaired incentives, resulted in sabotage, alienated large segments of the population, etc.
4. The loss of population via emigration, particularly technicians, skilled labor, entrepreneurs, and other economically important groups.
5. Adverse weather and climatic conditions.

It is, therefore, difficult to attribute all declines specifically to the boycott since many other negative factors may also be at work. Again, however, it must be noted that many of the above changes also had positive aspects. Thus, many institutional changes may have had a positive effect upon output, such as the Agrarian Reform and similar measures which mobilized large segments of previously unutilized or underutilized land and labor. Despite the vast multitude of inadequacies in planning, the accent was on growth via investment[118] and no doubt resulted in greater emphasis in this area than would have resulted had there been no Revolution. To the extent, also, that large numbers of persons became

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[118] See Economic Survey of Latin America 1963, pp. 288-289.

enthused and motivated by the revolution and its goals, as has certainly been the case, this offsets in part (or in whole, perhaps) number 3 above. Finally, while the loss of persons possessing vital skills is perhaps one of the most significant factors, it must also be remembered that large numbers of very old, very young, sick and infirmed--in short, unproductive consumers--also emigrated. It is, therefore, difficult to net out these offsetting factors. Which have been most significant is both theoretically and statistically impossible to prove and the answers most generally ventured are usually colored by political sympathies. However, despite the impossibility of quantifying these particular factors, they should be borne in mind when analyzing Cuba's position.

Elementary Keynesian multiplier analysis suggests that if a nation is denied export markets, this reduction in injections into the income stream will result in a more than proportionate decline in income due to the workings of the foreign trade multiplier. If, as is likely, the target nation takes measures to reduce its own propensity to import in order to protect the balance of payments position, the foreign trade multiplier becomes even greater, thereby increasing the naturally magnified domestic impact of the boycott. However, at least two qualifications must be noted. The first is that it is extremely unlikely that the target nation will not attempt some domestic measures to counter the sanctions. Thus, an autonomous decrease in export earnings may well be countered by an autonomous increase in government spending. More will be said on this point later. And, of course, to the extent that trade diversion is possible, it may well be that only mild decreases in total export earnings will result. This latter possibility is essentially a

function of the number and size of the nonboycotting nations, their particular demands for imports, present suppliers, and the degree of access to their markets which exists. As has already been discussed, few alternative markets of significance were available to Cuba due to the preference systems of the Western European nations. For political reasons, however, the socialist market was opened, thereby allowing for a significant volume of trade diversion.

A well recognized but often overlooked fact must be stressed at this juncture; the real benefits from trade derive not from exporting, but from importing. Any gains which might accrue from the income effects of purchases by foreigners are equally obtainable via other spending increases. The essential function of exports is to allow a nation the ability to import, to take advantage of the international division of labor and differing factor endowments. In this instance, the body blow to the Cuban economy has not been the loss of export markets so much as the loss of traditional suppliers. Thus, even if Cuban exports had been maintained and assuming the socialist camp had been able to pay in dollars, the inability to obtain American products (assuming the boycott is not contravened) would have very greatly reduced the value of those earnings from the Cuban point of view. This fact results from Cuba's very great dependence upon United States supplies--supplies which were neither easily nor adequately replaced by alternative producers due to the highly imperfect substitutability of the goods in question.

The inadequacy of simple multiplier analysis is thus apparent. Even assuming that the boycotted nation takes no domestic measures to offset the loss of export earnings, the real income effects of the boycott will

very likely be far greater than the multiplier indicates due to the inability to import and the consequent forward and backward linkages within the domestic economy. An extreme example will suffice to demonstrate this point. Suppose that the loss of foreign exchange earnings is equivalent to \$10 and the multiplier (adjusted, let us say, for a changed propensity to import) is three. This would suggest a decrease in the level of income by \$30. This, however, depends very much on the nature of the goods imported. If rock-and-roll records are the only item imported, these imports will fall by \$10 (assuming no change in reserves) and the ultimate decrease in income may very well be \$30. If, however, the item imported is petroleum, which is the only source of power, then the situation is wholly changed due to the vital linkage that import has with the functioning of the rest of the domestic economy. Production may very well come to a standstill and both money income and real output will decrease by far more than \$30. In this case, even if it is assumed that the government undertakes spending to offset the loss of export markets, real output must still fall and inflation will result.

The importance of imports and their linkage with the rest of the domestic economy suggests another point. If imports are effectively restricted, the impact upon domestic income is likely to be far greater than the ratio of imports to national product. Thus, if imports amount to 20 percent of the GNP, their reduction to zero without adequate import substitutes is likely to reduce the level of economic activities by far more than 20 percent.

The two points just made suggest that multiplier analysis and/or generalizing from the ratio of imports to national income to arrive at the impact of economic sanctions are inadequate and are likely to lead to improper conclusions. More appropriate would be the technique of input-output analysis. Unfortunately, this often requires far more data than can be obtained. More damaging, however, is a situation of trade diversion in which more or less the same kinds of goods are obtained, but the qualitative differences and other dislocations resulting from changed trading partners impart a negative production effect which the input-output technique would be unable to detect. In addition, linear production functions and constant relative prices must generally be assumed, the implications of which may yield a theoretical conclusion very far from actual conditions.

In assessing the damage done by economic sanctions, the logical starting point is a review of the theoretical case for trade. Trade on the basis of comparative costs allows a nation's consumption possibilities frontier to exceed its production possibilities curve due to the exchange of items domestically produced (exports) for those for which the domestic marginal rate of transformation is less than the world market terms of trade. Nonparticipation in trade, then, would reduce the consumption possibilities curve to the point where it coincided with the production possibilities frontier (assuming import substitution for all previous exports were possible). Without doubt, in the process of switching to import substitution and adjusting to the loss of export markets there would arise some dislocations which would tend to make the actual operation of the economy move away (or further away) from

the production frontier itself. Hence, a further cost of sanctions would be an increase in idle resources, either temporary or permanent (depending upon the flexibility and adaptability of the factors and the general economy).

The boycott of Cuba well illustrates all of the above properties as well as a further one of very major significance, one which may be rather unique. The fact that Cuba's capital stock came almost wholly from the United States as well as the bulk of its raw materials, technological orientation, and related factors meant extremely heavy dependence upon American supplies. As one source suggests, "The capital installed in Cuba was virtually all of U. S. origin. Practically overnight all supplies of raw materials, replacement parts, equipment, etc., were suspended. . . ."[119] The impact was enormous. Of course, trade diversion did occur. The socialist countries provided a new source of supplies; however, with respect to Cuba's accumulated capital stock, "Different equipment and parts belonged to different technological systems."[120] A lack of complementarity between Cuba's needs and bloc production existed which created serious deficiencies. The result has been the accelerated depreciation of much of Cuba's capital and infrastructure. Thus, in addition to movement of the actual operation situation further within the production possibility frontier as well as the shrinkage of the consumption possibility curve until it coincided with the latter, Cuba's production frontier itself tended to move inward

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[119]"Cuba's Foreign Trade," p. 7.

[120]<u>Ibid</u>., p. 7-8.

since much capital equipment was rendered obsolete due to lack of spare parts and suitable maintenance materials. This, of course, must vitally affect the direction and pace of Cuban economic development, as will be demonstrated. It must be concluded, then, that the United States boycott of Cuba not only had an income effect, but a wealth effect as well which reinforced and created an additional adverse income effect.

A more detailed investigation of the particular aspects of the embargo and its domestic repercussions is now in order. Cuba's dependence upon American imports--their technology, quality, and functionality--made it particularly vulnerable to American economic sanctions. The discussion of the domestic impact of import cessation from the United States is, then, perhaps the best place to begin.

So enormous were the problems caused by the lack of spare parts, replacement equipment, and normal raw materials that it is difficult to realize or fully comprehend the actual magnitudes involved. However, even a brief perusal of the Cuban press--simply filled with notices of new repair shops, stories on maintenance problems, etc.--indicates the scope of the shortages created and the nature of domestic efforts to overcome the problems. The establishment of spare parts factories and repair shops, the economizing on items in short supply, and the need to conserve raw materials and insure maintenance are themes as recurring as the weather and international politics. While many of the articles, of which a typical title would be "Mincin Employees Solving Problems of Automobile Spare Parts,"[121] are no doubt in part exhortations for the

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[121] JPRS: 21, 233, El Mundo, August, 1963, p. 8.

further economizing of scarce items, they reflect real needs and problems and indicate the multitude of steps taken to combat the boycott-related difficulties.

It is no overstatement to repeat that Cuba's entire industrial structure--including the transport, communications, power, mining, and agricultural sectors--was virtually dependent upon American parts and raw materials. Indeed, "most of the larger factories . . . worked with raw materials . . . sometimes specifically designed for the machinery and processes in which they were to be used."[122] With regard to parts, it must be remembered that in most mechanical apparatuses, the deterioration or malfunctioning of even a minor item can cause the complete paralysis of the entire piece of equipment or process. Boorstein very clearly describes this dependence as follows:

> Just as an automobile can be put out of commission for lack of some small, inexpensive part--say a gasket for a brake cylinder worth three dollars--so the operations of a large factory or mine, turning out products worth several million dollars a year, can be halted by the absence of ordinarily insignificant pieces of equipment. The unavailability of a small filter--worth $25--for equipment at Moa which pulverizes the ore into a fine powder can stop the operations of the whole nickel plant. The failure of small parts for the ventilators, or the overhead cable system which moves the copper around, can interfere with production at the Matahambre copper mine. There are thousands of such parts throughout the mines, factories, and electric power and telephone systems of Cuba.[123]

Unfortunately, from the Cuban perspective, the purchase of spare parts from the socialist countries was in general unsatisfactory for the servicing of Cuban industrial needs. The same problem prevailed with

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[122] Boorstein, p. 59.

[123] *Ibid*.

respect to imports from the nonboycotting western nations--a lack of complementarity existed in terms of technological needs and traditional patterns and uses of both capital goods and spare parts imports. Thus, gaskets from neither western nor eastern Europe fit Cuban engines which were American-made and geared to a different technological system. Soviet agricultural equipment was in many instances found useless due to its design which, while appropriate to methods and techniques of cultivation in the U.S.S.R., did not match Cuban agricultural practices. In addition, the socialist imports were designed basically for cool climate operation and have been found wanting in several areas in this regard alone. Thus, metal imports have tended to rust quickly and the engines of farm machinery and other vehicles have evidenced a high propensity for boiling over and over kinds of breakdowns. Hence, where replacements have been found, they have been far from satisfactory.

It should also be noted that the availability of replacement parts for the new machinery presents another problem. The time for deliveries of spare parts is very great, improperly ordered and/or delivered parts have been procured, and a host of other problems have appeared. Whereas previously the parts could be ordered and delivered from a very close source--a transaction in which both the purchaser and the seller were familiar with the needs and problems involved--the new suppliers have been wholly unfamiliar with Cuban needs and activities and too distant for quick delivery and a reasonable knowledge of the requirements of the situation. It is also of interest to note that many of Cuba's needs are in areas in which the Soviets themselves have a lagging technology and have been net technological borrowers. Thus, Cuba has

been forced from relatively sophisticated suppliers to unsophisticated ones. Finally, the general problems of quality--the very ones so frequently assailed in Soviet periodicals and at Party Congresses--have plagued the successful adaptation and use of socialist goods in Cuba.

In short, the performance of much Soviet equipment has been extremely disappointing, with Castro himself frequently complaining about this very point. During the 1967-1968 sugar harvest, the breakdowns in Soviet combines were "placed between 60 percent and 90 percent of the total operating time, due to both poor quality and lack of spare parts . . . ."[124] Soviet technicians and Cuban agriculturalists have been working together for years in an attempt to develop useable machinery for the successful mechanization of the sugar crop, but still have achieved little, if any, success.[125] Both the inappropriateness and lack of sophistication of Soviet technology coupled with the administrative blunders of Cuban personnel have led to collossal failures. As only one example, in 1963 Cuba ordered 1,500 sugar cane cutting machines from the Soviets, although sufficient testing of the apparatus had not been completed. This large order is quite surprising in view of the fact that the Soviet sugar industry produces beet, not cane and this in itself should have given the Cuban planners hesitancy. The final result was that at the "end of the 1964 harvest, these machines were discarded. They have never been used again to cut cane, and they

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[124] Economic Research Bureau, Inc., Economic Intelligence Report: Cuba, Vol. 1, Number 1 (undated), p. 6.

[125] See M. Sigale, "Cuba calls Soviet Technicians as Sugar Harvesters Go Sour," Miami News, January 12, 1969, p. 7C.

can be found in the junk yards of the sugar mills."[126] These facts, of course, should be borne in mind when assessing the real value of Soviet aid. Concerning the technological incongruities, lack of complementarity, and great distance between Cuba and the bloc, Draper has stated: "This dependence . . . has, in a sense, created an economic monstrosity."[127]

To return to the problem at hand--the dislocations and capital consumption caused by the loss of American suppliers--the magnitude of the problems can only be indicated by a brief enumeration of certain specific instances in which breakdowns occurred. This will tend to emphasize the enormous dependence of Cuba's capital stock and industry on American suppliers.

> 1. In the textile industry, the Cubans have encountered many disappointments due to nonfulfillment of plans. "The main shortcoming in supply lay in the fact that a series of indispensable accessories to textile mills were not received. These included shuttles, rammers, bobbins, lathes, etc. Spinning establishments did not receive carding bas, shuttles, belts, etc. These parts were lacking as of the fourth quarter of 1962 and through the second quarter of 1963, during which time period there was a complete shortage of imported parts . . . ."[128]
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> 2. Serious transport problems have been encountered throughout the island. In the transport industry the capital stock declined very steadily despite a multitude of efforts to ease the rate of depreciation. "One-quarter of the island's busses were out of operation for want of spare parts late in 1961. Only one-half of Cuba's 1,400 railroad passenger cars were functioning in

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[126] Ing. Raul Esparza Tabares, "Failure of the Mechanization of the Sugar-Cane Crop in Cuba . . .," in Economic Intelligence Report, Vol. II, Number 2-A (undated), p. 2.

[127] Draper, p. 128.

[128] JPRS 25,921: "An Economic Analysis of the Spinning and Textile Industry," Nuestra Industria Economica, Number 7, June, 1964, p. 85.

1962 . . . and total freight traffic fell by almost fifteen per cent from 1961 to 1962."[129]

Parts problems became so severe that the practice of dismantling existing mechanical devices for the purpose of utilizing their working parts to salvage other machines required the introduction of a term previously little used, and translated as "cannibalization."

3. With reference to the trucking industry, after "the stock of parts and accessories was depleted, the trucks began to be 'cannibalized' and scrapped . . . in 1964, only 30 per cent of the trucks operating in Cuba in 1958 are still in operation."[130]

The automobile situation has also deteriorated greatly. Approximately one-half of the automobiles in operation in 1958 had been scrapped by 1965. Thousands upon thousands of junked cars may be seen in the Havana area. It has been joked that to keep a car running in Cuba today one must be half mechanic and half inventor. Tires are scarce and of poor quality. Spare parts are virtually impossible to obtain through legitimate channels and must be procured on the black market. They come mostly from Great Britain and Canada. Gasoline is of poor quality and is rationed. The same is true for motor oil, while brake fluid is so scarce that home formulae, most consisting of mixing alcohol with castor oil, must be used. These same problems are encountered with regard to headlights, paint, batteries, and all other automobile-related items. Despite the most severe penalties, the blackmarket in auto parts is a thriving one. Secret workshops--hotbeds of capitalistic enterprise for the servicing of cars--have frequently been discovered. The problem became so vast that in the spring of 1963 a new government agency, the Consolidated Enterprise of Automobile Spare Parts, was created under the Ministry of Transport. Cars have been destroyed via cannibalization since the parts have become so valuable. A law in 1963 was passed outlawing this practice.

Previously there had been approximately two thousand busses serving the greater Havana area. Over one period breakdowns had been "running at an average of 280 daily, i.e., over 7,000 per month. Over 400 busses were out of action with serious defects."[131]

Prior to the Revolution steady increases were recorded in the number of motor transport vehicles; and the average length of

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[129] O'Conner, p. 189.

[130] Stages and Problems of Industrial Development in Cuba, p. 200.

[131] Boorstein, p. 115.

vehicle life in all of Latin America is much longer than in the United States. In view of these facts, the steady deterioration of Cuba's transport facilities is clear evidence of the impact of the boycott.

4. Boorstein mentions a $4 million synthetic fiber plant completed in 1958 which "could not be put into operation because it was not possible to get cellulose acetate of exactly the specification required."[132]

The sugar industry was particularly affected, especially by the failure of the transport system and mill breakdowns. A 1964 British study concerning the mechanization of agriculture reported the following:

5. "Caterpillar tractors not in operation due to lack of spare parts constitute 62 per cent of the total, of which 37 per cent were manufactured in capitalistic countries and 25 per cent in socialist countries. Wheel tractors paralized because they are not in working condition amount to 47 per cent of the total, of which 31 per cent came from capitalistic countries and 16 per cent from socialist countries. There are more than 200 tractors inoperative in the Oriente Province because of lack of tires . . . . In Camaguey, 220 Caterpillars have been laid aside due to lack of spare parts and 622 due to lack of tires."[133]

6. The nickel operations at the Moa and Nicaro mines experienced breakdowns and a lack of spare parts which resulted in 1964's output falling to 50 per cent of the 1959 levels.[134]

This list could go on indefinitely--unfortunately, a complete enumeration of stoppages and breakdowns due to lack of parts and raw materials cannot be obtained and it is highly doubtful if the Cuban authorities themselves have more than rough estimates in this regard. Final mention, however, should be made of the sugar industry which has historically been the bastion of strength for the Cuban economy. By 1965 nine mills

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[132] _Ibid_.

[133] Quoted in _Stages and Problems of Industrial Development in Cuba_, p. 199.

[134] _Ibid_., p. 196.

had been cannabilized and there have been rumors that two others have since been disassembled. This, of course, represents a very serious obstacle to the attainment of the 10-million-goal set by Castro for 1970. Indeed, an increase in the number of mills was indicated, but the opposite has been the necessity in order to keep the remaining ones running, even on an intermittent basis.

A case study of the Ecuador Sugar Mill for 1967 indicates that as late as that year the mill still had eleven American-made boilers. "The spare parts situation is serious and stoppages and malfunctions are frequent."[135] In another mill situation, the Hermanos Diaz refinery, of a total of 39 storage tanks, all but one were of American manufacture. Four were considered in extremely poor condition, 13 in poor condition, 5 in fair condition, and 11 in good condition. The one Soviet-made tank was reported to be leaking. Unfortunately for Cuba, most of the tanks still in good condition were the smaller ones so that the overall capacity was poor and the refinery experienced many operational problems, although it was still functioning.[136] Parts for American equipment have been purchased in Canada, Mexico, and Great Britain.

In another study, approximately 43 percent of the instruments were out of service and 44 percent working, but requiring repair, with only 13 percent being in good condition. The analysis continues:

> In the sugar mills of our country there are 14 systems for automatic control of vacuum pans, and until the end of the 1965

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[135] Economic Research Bureau, Inc., Economic Intelligence Report, Vol. II, number 11 (undated), p. 5.

[136] *Ibid.*, p. 9.

> crop, 12 of these were inoperative. According to data supplied by the "Boria Luis Santa Coloma" mill . . ., their system of vacuum pan control, which is one of the two still operating, assures an increase in production of 3700 bags of sugar per crop, on the average. This means a contribution of between 25 - 35,000 dollars per crop, according to the price of sugar. From the foregoing, it can be estimated that the lack of operation of the 12 other systems mentioned causes losses that range from 3,000,000-4,000,000 dollars per crop.
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> If to this we add that vacuum pan control systems are only one part of the instrumentation now out of service, the . . . breakdown of the means of automation can be calculated in the millions of dollars yearly.[137]

During the second portion of the 1950's negotiations between Cuba and the United States concerning new tariff arrangements had been in the process. Uncertainty concerning future tariff rates resulted in a large increase in Cuban inventories of many American products. For this reason--a stockpiling wholly unrelated to Castro and the revolution--the regime found itself with somewhat of a buffer with which to counter the immediate impacts of the trade deterioration. "It was in 1961, as the pre-existing inventories and last shipments of American spare parts and raw materials began to be used up, that serious difficulties disrupted and total industrial production declined."[138]

This meant that at a time when the economy was moving from far within its production possibilities curve to operating points much closer to the frontier (due to the mobilization of large segments of hitherto unutilized or underutilized resources), work stoppages and breakdowns began to appear due to raw materials and parts shortages.

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[137] JPRS; 41,538, "Automation in Cuba," Teoría y Práctica, May, 1967, p. 53.

[138] Boorstein, pp. 60-61.

The years 1962-1964, in particular, were ones of very severe spare parts shortages, although to this day serious problems remain. Che Guevara noted in one speech that production per worker dropped to an index of 77 in 1963 (using a 1962 base).[139] While this drop was due to many factors--absenteeism, institutional reorganizations, poor plannings and related factors, the breakdowns and deterioration of capital stock had a very significant impact. This the Cuban leader did not mention, perhaps because of the adverse morale effect it might have--planning could be improved, bureaucracy cut, workers more disciplined and trained, but the embargo would remain as would the accompanying breakdowns and capital loss.

Work stoppages and breakdowns were due to other boycott-related problems, as well as the ones already mentioned. As has been indicated, a great deal of improvisation had to take place. New fuels and the re-use of fuels and lubricants were developed, but import substitutes have tended to be of very poor quality (as will be further discussed) and therefore tended to increase the rate of decay of many machines. In addition, where raw materials could be had from the socialist countries, timing problems played havoc with production schedules. The trip from China normally took two months and deliveries were notoriously late, as frequently was the case with Soviet shipments. Often catalogs were unavailable for the products of the socialist countries and parts ordering was thereby made virtually impossible. Also, the switch to the metric system created an untold number of ordering and measurement problems.

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[139] Quoted in Stages and Problems of Industrial Development in Cuba, p. 206.

Is it possible to roughly quantify the impact of the accelerated capital consumption which has occurred? The author does believe that a reasonable estimate can be made in this regard. Rates of depreciation of capital goods in Cuba at least doubled to tripled during the first 4-5 years of the boycott. Assuming an incremental capital/output ratio of 3:1, and following W. A. Lewis's suggested rate of depreciation for developing countries--3 percent of the national income,[140] a doubling or tripling of rates of depreciation would lower growth in total output by 1-2 percent annually due to reductions in net investment. For example, if Cuba's normal growth rate were 4 percent annually, the impact of the boycott-induced accelerated depreciation would lower it to 2 or 3 percent. These estimates are conservative and seem quite applicable to the Cuban situation. If higher rates of depreciation are used, the growth slowdown would be greater. It must be stressed that these declines are due to a shrinkage of the production possibilities frontier and are separate and apart from the other factors which have also contributed to declines in Cuba's national dividend.

It does not, however, seem to be possible to obtain an estimate of the value of time lost due to work stoppages and breakdowns. This, of course, produced a movement inward from the production possibility frontier and theoretically can be measured by the value of the output foregone. However, no overall statistics are available which might allow for such an estimate, although the figure would no doubt be very

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[140] W. A. Lewis, The Theory of Economic Growth, Homewood: Richard D. Irwin, 1954, p. 210. Actually, Lewis suggested limits of 2-3 percent. The latter figure seemed more applicable, although both of necessity are simply rules of thumb.

considerable. Thus, in September, 1966, Dr. Carlos Rafael Rodriguez, a Cuban Minister and economist, stated that from 40-60 percent of the capacity of Cuban factories was idle due to a lack of parts and raw materials.[141] The Economic Commission for Latin America reported that Cuba's inventory of tractors in 1960 was 9,211 and probably expanded considerably in the next two years when 10,000 additional tractors were imported. The report continued: "However, it should be noted that a significant proportion of the inventory is used very little or not at all, because of the shortage of spare parts."[142] The paralysis of Cuban industry, then, was widespread. Thus, the production of rayon, tires and tubes, nickel, and other items came to a stop which lasted for several months.[143] Despite these figures, the author does not feel that a realistic assessment of the value of losses can be made due to the lack of additional data.

Other costs are involved. The nation became out of necessity very repair oriented and a disproportionate amount of resources were devoted to this kind of activity. Repair shops appeared everywhere and were continuously busy. This employment, however, which would not have been necessary without the embargo, represented a substantial opportunity cost in terms of other outputs foregone. In addition, the great distance between Cuba and her new suppliers meant that only bulk shipments were

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[141] Quoted in Lee Kanner, World Economic Review and Forecast: 1967, New York: Grosset and Dunlop, 1967, p. 209.

[142] Economic Survey of Latin America, 1963, pp. 279-280.

[143] Nolff, pp. 321-322.

feasible rather than the traditional Cuban order from the United States which could be in almost any sized delivery. Because Cuba did not possess adequate port and warehousing facilities for the receipt of large shipments and for the stocking of inventories, investment funds had to be channeled into these areas rather than more directly productive sectors. This again is a boycott-related expense which detracted from the development and production goals of the regime.

Transport costs also increased sharply. Rather than supplies from her immediate neighbor, Cuba's trade was channeled to the most distant portions of the globe. Since the great bulk of this trade was transported in foreign vessels, mostly communist ones, but in some western ships as well, the invisibles account tended toward a greater deficit. This, also, had the effect of reducing the real value of socialist aid as well as the real value of total imports since much greater amounts were expended for transport than previously. Unfortunately, no published data are available on just how much extra this amount might be. However, mention of two important items will illustrate the greater expenses involved. Prior to the embargo Cuba obtained her petroleum essentially from Venezuela, paying what would today cost about an estimated $1.10 per ton for transport. Although the rates charged by socialist transport agencies are not known, the western rates for Odessa-to-Santiago oil shipments would be approximately $6.50 per ton.[144] This represents an enormous increase in yearly transport

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[144]Estimates based on the flat inter-scale rates and derived essentially with the aid of Mr. Paul LeRoux, supply analysist, Esso Inter-America, Inc., Miami, Florida.

costs, although it is not likely that Cuba foots all the increase by herself. In addition, the real costs of ocean tanker transport for the Russians may be lower than in the West. Nevertheless, a very considerable increase in freight expense must result. Another illustrative example is that of rice. When it is recognized that very great amounts of rice imports previously came from the American Gulf states, but later from China, the awkwardness of the new trade patterns is obvious. Again using Western rates, it is estimated that the cost per ton to ship rice from New Orleans to Cuba would be about $3.50, while the corresponding rate from China to Cuba would be a minimum of $12.00.[145] This increased the transport costs alone for the importation of rice in 1965 by $2.1 million, while the increases in 1964 and 1966 were slightly less than $1.2 million each year. When it is recognized that vast quantities of goods formerly imported from the United States now come from such distant shores, it is obvious that the increase in transport costs has been enormous. Overall it is likely that transport expenses due to greater distances and related expense have probably tripled.[146] This means that transport costs were roughly $50 million dollars greater for 1963 than would otherwise have been the case.[147] This appears to be a reasonable annual

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[145] Estimate from Barber Steamship Lines, Inc., New York, New York.

[146] Based on transport cost rules of thumb provided in C. P. Kindleberger, Foreign Trade and the National Economy, New Haven: Yale University Press, 1962, p. 12, and data presented on oil and rice transport. The estimate is considered conservative.

[147] Estimate was computed as follows: 4.7 percent of the 1963 import total was taken as transport expense assuming trade with United States and neighbors (figure based on Kindleberger cited above), then multiplied by 3. This total was multiplied by .75 to account for the fact that only three-fourths of imports came from the socialist

figure (probably highly conservative) for the years beginning with 1963--a cost directly attributable to the boycott.

Two other points dealing with transport cost merit mention. The American embargo probably also resulted in an increase in transport fees on free world vessels trading with Western Europe which earlier would have charged less. This is due to the fact that the United States Maritime Administration's blacklist resulted in Cuba's being able to choose from a smaller number of vessels, with access to some of the larger and most efficient ships (or firms) denied. In addition, ships returning from Cuba did not carry full cargoes. Finally, it is likely that there were premium rates charged for Cuban trips due to the existence of the American blacklist and the knowledge on the part of shippers that Cuba desperately needed many items. Thus, Castro's statement to the effect that the boycott has cost his country hundreds of millions of dollars due to extra transportation expense and buying under difficult conditions[148] is probably a fairly valid approximation of most of the direct costs involved.

In addition to the growth retarding factors related to the boycott, the general quality of output has deteriorated very seriously. This is essentially due to four factors: (1) too rapid rates of import

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bloc. This was probably not necessary because all imports came from overseas anyway, so that the estimate is conservative on this account also. From this figure was subtracted the original amount which is likely to have prevailed had trade been via traditional sources. The difference was roughly $50 million. For 1964 the figure was no doubt higher due to much greater imports.

[148]Quoted in Fenton Wheeler, "U. S. Blockade 'Damaging, Expensive,' Says Castro," Miami News, August 22, 1968, p. 30.

substitution forced by the boycott, (2) the necessary domestic economizing which has occurred, (3) a lack of complementarity with new suppliers, and finally, though not attributable to the boycott, (4) disincentive effects of new institutional arrangements as well as improper allocations of resources.

When examining the first factor listed above, it should be borne in mind that the Castro regime was bent upon a lessened dependence upon both the United States and upon sugar; therefore, domestic diversification and the accompanying import substitution would have resulted even if no boycott had been instituted. And in a few areas this is likely to have been rational from an economic viewpoint. However, the boycott's denial to Cuba both of American finished and semifinished goods coupled with smaller foreign exchange earnings with which to purchase in other areas meant that rapid import substitution on a large rather than restricted scale was necessary. However, Cuba's lack of technical capacity, shortage of diverse skills, and inexperience in the production of many products previously imported has resulted in poorer quality goods, higher domestic costs, and some serious misallocations of resources. Economically rational import substitution was limited to a relatively small number of products, although actual practice encompassed a very broad range. Referring to the limits to import substitution one study has concluded:

> These limits, however, can be quickly exceeded . . . . Import substitution may therefore soon spread a country's resources too thin over numerous small and inefficient enterprises, and extend to types of production ill suited to its conditions, with the unfortunate

> result of raising costs even in industries in which it should otherwise be able to compete.[149]

This is a remarkably close description of the pattern of import substitution in Cuba during the 1960's. Import substitution has proved extremely costly and wasteful, and has resulted in sharp deterioration in the quality of many goods. That this has happened in other countries such as India--whose import substitution capacities should far exceed those of Cuba--has been well documented elsewhere.[150] Cuba's problems, then, are not unique in this regard, but were compounded by the boycott which forced a broad range of import substitution rather than concentration upon selected commodities for which the nation was relatively well suited. It should also be noted that frequently the immediate efforts of import substitution were to increase rather than decrease the amount of foreign exchange required since needed capital equipment, raw materials and fueld all had to be imported. Indeed, due to poor planning many projects were left unfinished and unutilized as a result of the unavailability of necessary external supplies.

Quality also suffered due to domestic economizing efforts which became vitally necessary by 1961 when severe goods shortages began appearing. Most tires are recapped and a whole host of items normally discarded are reused or reconstructed. This has occurred on a large

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[149]Hal B. Lary, Imports of Manufactures from Less Developed Countries, New York: National Bureau of Economic Research, 1968, p. 10.

[150]See Jack Baranson, "Transfer of Technical Knowledge by International Corporations to Developing Economies," American Economic Review, May, 1966, pp. 259-267, and Wilfred Malenbaum, "Comparative Costs and Economic Development: The Experience of India," American Economic Review, May, 1964, p. 396.

scale with respect to oil. One Cuban spokesman's statement gives an indication as to the degree of recovery efforts in this area:

> We save great quantities of foreign credits through this process because our lubricants come from abroad and all the rerefined oil we can obtain, about 72 per cent of the total, can be used again as lubricant.[151]

It should be noted that the widespread use of some lower quality products, such as fuels and similar goods, tends to accelerate the rate of deterioration of capital as well as causing increased maintenance problems.

Finally, a lack of complementarity with Cuba's new trading partners also contributed to accelerated depreciation and low quality outputs. As is well known, the Soviet Union has itself had serious problems in maintaining quality standards for output, and items for export (at least to the developing countries) have proved no exception. Quality, therefore, has declined due to the substitution of suppliers--from a relatively high quality source to ones of much poorer quality. In addition, even Soviet products--particularly agricultural machinery and motors--which are constructed according to minimum standards have encountered difficulties in the Cuban climate and terrain. Perhaps most importantly, the new trading partners have not been able to supply certain raw material inputs at all, or have provided poorly suitable substitutes (though not necessarily of low quality), or have not been able to supply a sufficient amount. Petroleum is a case in point. The Soviets have simply not been able to supply amounts adequate to meet

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[151] Ivan Hernandez, quoted in Don Bohning, "Shortage of Petroleum in Cuba Puts New Squeeze on a Shaky Economy," Miami Herald, December 17, 1967, p. 8D.

Cuba's growing needs. In addition, the blends supplied prior to the embargo were more suitable for Cuban needs. The raw materials shortages and problems with new suppliers is apparent in the following passage from one of Guevara's reports on industry:

> The amount of wheat milled was lower than had been planned because wheat and bromate [for bleaching] were short and because the wheat received was a soft one that reduces the amount of flour that can be extracted . . . . In addition there were shortages of additives such as pyrophosphate, calcium phosphate, etc., necessary for bakery products . . . and there has been a lack of coordination with our suppliers who sent us a type of wheat with which our mills do not work well.[152]

Examples of quality deterioration are numerous and have become a part of the Cuban way of life. Thus, in addition to the shortage of soaps, they are not scented and no longer impart pleasing fragrances due to a lack of proper ingredients which are not domestically produced. Cuban raw materials had to be substituted in glass bottle production, and the color is often caramel rather than clear. Glue does not dry well and usually several matches must be struck before one lights. Guevara's comments with respect to one popular Cuban product are classic:

> Coca Cola was one of the most popular drinks in Cuba, but today it tastes like cough syrup. It has seven, eight, or nine . . . ingredients . . . . It was necessary to do much investigation and a substitute has been found, but sometimes we have to eliminate an ingredient that we can't make. It is necessary to work harder because we have to make sure of a quality product in quantities sufficient for the whole people to consume . . . Soft drinks in Cuba are almost a necessity, given the climate.[153]

One final example--toothpaste--shows how closely to home quality deterioration comes to the average Cuban. Quoting again from Che Guevara,

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[152] Quoted in Boorstein, p. 106.

[153] _Ibid_.

> There is at present a scarcity of toothpaste . . . Since about four months ago there has been a paralysis in production; there was, however, a large stock . . . . Afterwards the reserves began to decline and the raw material did not arrive . . . . When the raw material--bicalcium sulfate--did arrive, it did not meet the specifications for making toothpaste. The technical comrades of the enterprises got to work and made a toothpaste . . . it is a toothpaste as good as the old one, it cleans equally well, but after a month it becomes hard.[154]

These problems of quality deterioration have seriously eroded the standard of living in Cuba (although there have been some gains for the masses due to income redistribution) and are a direct result of the boycott and Cuba's extremely close previous trade ties between Cuba and the United States. In short, "the Socialist countries of Eastern Europe are not capable, due to lack of complementarity, of supplying Cuba's demands for the articles required by the Island's economy."[155]

In addition, the traditional pattern of consumption has been rather markedly altered, while the widespread goods shortages are in part still another result of the embargo (although also a function of poor planning). Cuba's overwhelmingly heavy dependence upon American supplies naturally had a strong impact upon the Cuban style of life. "Successive waves of United States exports and investments pushed the Cubans into United States consumption patterns, which they could not easily change."[156] Indeed, it is likely that "few foreign consumers . . . were as committed to our kinds of products."[157] It will be recalled

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[154] Ibid., p. 103.

[155] Cuban Economic Research Project, Cuba: Agriculture and Planning 1963-1964, Miami: University of Miami Press, 1965, p. 319.

[156] Sundelson, p. 111.

[157] Ibid., p. 100.

that when the 1903 Reciprocity Treaty between Cuba and the United States was implemented, allowing mutual tariff reductions, the absolute volume of Cuban imports from traditional suppliers in Europe did not diminish, mainly due to the consumption habits and patterns of the Cuban people which could not change as quickly as legislative enactments. Only over time did a new orientation occur so that American products gradually supplanted the older ones. The abrupt cessation of American imports, then, played havoc with the traditional patterns of consumption, although the relatively large stocks of commodities on hand did provide a cushion for several months. Nevertheless, shortages soon appeared for products such as toothpaste, soft drinks, razor blades, soaps, colognes, chicken, meats, lard, vegetables and a host of other items. In March, 1961, general food rationing was introduced. It should, however, be borne in mind that due to income redistribution measures it is likely that food consumption increased quite rapidly and would have strained Cuba's capacity even without the boycott. The embargo, of course, made conditions just that much worse. For example, normally imports from the U. S. of chickens ranged between 1.2-1.5 million monthly, supplying almost the entire Cuban market.[158] After the embargo this quantity fell to zero and Cuban farms had nowhere near the capacity to supply the normal demand let alone an inflated one due to income redistribution. The absence of chicken increased demand for meat, which also disappeared from the market. Funds were then channeled into fish, and again severe shortages appeared. A very active and flourishing blackmarket has

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[158] Boorstein, p. 97.

existed in Cuba since the shortages first appeared. Coupled with an attempted industrialization and mistakes in planning, shortages extend to almost all goods.

Again, Soviet and bloc supplies, while providing a means of subsistence in many instances, resulted in sharp changes in Cuban consumption patterns. Cuba has traditionally been a very heavy lard consumer, purchasing perhaps 10 percent of the lard produced in the United States. With these supplies cut off, a radical change in the Cuban diet was made necessary. Castro himself campaigned against heavy comsumption of lard as domestic production of that product and vegetable oils was stepped up in an effort to plug the gap. Fidel repeated to the Cuban people--probably correctly--that their lard consumption was excessive and not healthful. Rice has also been important in the Cuban diet. When American supplies were cut off, China began to supply rice, although in insufficient quantities. When political tensions between Cuba and China arose, despite Cuba's significantly greater needs of rice due to domestic dislocations, China reduced her supplies drastically. Castro then spoke to the Cuban people of China's "treachery" and collusion with the "imperialists," and this time suggested that rice be voluntarily dropped from the diet because more nutritional foods--from the U.S.S.R.--were then available! Despite trade fairs and promotion of Soviet goods in Cuba, the citizens have only very reluctantly changed patterns of consumption, essentially because alternative products were unavailable. Soviet trade missions have been sent to investigate the needs of the Cuban people, but in the area of consumer goods the Cuban market is too small to be at all meaningful to an autarkic-oriented Soviet economy.

A recent report is indicative of the scope of rationing and general conditions in Cuba today.

> In addition to the long list of items already rationed, Cubans will now be limited to 6 lb. of sugar a month. Smokers will have to content themselves with one pack of Virginia cigarettes or two packets of tobacco per week. Over Christmas housewives formed queues for their ration of three toys for each child under 13 years old and the nightclubs were temporarily opened. The government tries to buoy up spirits by promising a definite improvement in living conditions in 1970 to coincide with the hope for 10 mn ton sugar crop and the maturity of the 500,000 head dairy herd, which it is hoped will end milk rationing.[159]

It should be added that despite having ration books, it is not always possible to obtain the legal allotment in the stores.

These, then, have been the major impacts of the American embargo. As has been indicated, Cuban dependence upon foreign trade was very great and it was concentrated with the United States. The embargo has had very significant domestic effects, despite the volume of trade diversion which has occurred. Indeed, it is estimated that in spite of the junking of vast quantities of American made equipment and the import of socialist and Western European vehicles and capital goods, a "dependence upon American parts for the maintenance and repair of equipment will . . . ." remain through 1970 although it will "be far less acute."[160]

Trade theory also suggests that imports tend to hold the line on inflation and that participation in international trade tends to affect the domestic distribution of income. Unfortunately, since Cuba does not publish price indices, it is not possible to determine just how much

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[159]Economist Intelligence Unit, Cuba, Dominican Republic, Haiti, Puerto Rico: Quarterly Economic Review, Number 1, 1969, p. 3.

[160]Boorstein, p. 225.

inflation has occurred, although it has been very substantial by all other indicators. Exactly what part the enforced reduction in imports played in the price level increases is not readily determinable since a multitude of other variables were also at work. In the same vein, it is not possible to determine how the distribution of income was affected by the boycott because the government took active measures to bring about income redistributions in accordance with its own wishes.

Most of the above analysis has been conducted without reference to specific national income measures and related indicators. The overall performance of the Cuban economy under boycott conditions has not been statistically judged. This failure was deliberate and is the result of a lack of consistent and reliable sources of statistical data.[161] That there was an absolute fall in the level of economic activities and total output during the early years cannot be questioned.[162] Cuban data, however, are generally couched in value terms, but with no accompanying prices indices. The government is the only official source of data and is likely to have certain biases, although some data are no doubt more reliable than others. In addition, a lack of adequate domestic information and a lack of dependable and competent administrative services makes

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[161] See Carmelo Mesa-Lago, "Availability and Reliability of Statistics in Socialist Cuba," Latin American Research Review, Spring, 1969, pp. 53-92.

[162] The most complete findings concerning Cuba's national accounts for the Castro era seem to be those of Mesa-Lago (as yet unpublished portion of research cited above). His findings indicate that after a general stagnation in 1961, the economy dipped precipitously in 1962 and 1963 (years of serious spare parts shortages), recovered in 1964, without reaching the 1960-1961 levels, stagnated again in 1965, and declined in the following year once again.

it highly likely that Cuban officials themselves could not give realistic national income measures even if they so desired. For these reasons, then, supporting statistical data have been omitted rather than utilized (which would have thereby given a false appearance of exactness).

One final point, already alluded to, must be mentioned. Despite the many difficulties involved in bloc economic aid, this aid has been forthcoming in very great quantities and has been a major prop for the economy in the face of American sanctions. Although some Soviet aid was likely to be forthcoming anyway, there is little question that the embargo made such aid both economically essential for Cuba and politically more rewarding for the Soviets. What this suggests is that the incidence of the embargo has been partially shifted onto the socialist bloc. This is particularly the case in light of the great unlikelihood of the Cuban debt being repaid. As suggested when transport costs were discussed, expenses have increased enormously, although it is doubtful that the Cubans bore all the costs themselves. The socialist bloc, then, and particularly the Soviet Union, has without doubt borne a portion of the boycott's costs.

Political Repercussions

The political aspects of the United States embargo are many and diverse. First to be mentioned will be the effects upon Cuba--both domestically and internationally. Although Castro obviously desired to be free of the very great dependence upon the United States, it was not his intention to become equally dependent upon another foreign power, such as the Soviet Union. Without American economic sanctions,

it is not likely that Cuban trade with the socialist bloc would have become very significant as a proportion of total Cuban trade in view of the patently uneconomic nature of most transactions, as earlier indicated. Indeed, overtures from Cuba to the United States have been made in an attempt to mend relations between the two countries, no doubt in large measure due to Castro's desire to restore normal economic ties. Without access to American markets and supplies, however, Castro has no choice but to remain firmly in the economic and political orbit of the Soviet Union. In short, the boycott forced Cuba's trade to be concentrated with the socialist bloc. And, of course, the longer this trade relationship lasts, the less likely it will be terminated if other conditions change. Indeed, the boycott has more or less had the effect of cementing Cuban ties with the communist world.

Hence, while it has been reported by many reputable sources that Castro literally hates his dependence upon the Soviets, he has few alternatives. And to the extent that Cuba has increased its trade ties with Western Europe, in the event of some accommodation with the United States, the American market in Cuba will have been largely destroyed and replaced by European suppliers. Spare parts and other needs must be provided by that continent. Although commercial ties would undoubtedly redevelop on a massive basis again, they would nowhere near approximate the previous levels. Concommitant with this, it is likely that American political influence would never again approximate past levels. Whereas, had there been no boycott, it is likely that Castro's flirtation with the socialist bloc would have remained at only relatively minor levels, although he could hardly be expected to be as amenable to U. S.

government policy as past Cuban leaders have been. In short, the embargo forced Castro to the Russian camp and, therefore, very far from the United States sphere of influence.

As for the domestic noneconomic impacts, they too are several. In the first place, the boycott--imperialist economic warfare, as it is referred to in the Cuban press and communications media--simply confirmed in Castro's mind what was already a fairly distorted picture of the United States and capitalism. Thus, in addition to the theoretical teachings of Marti, Bolivar, Marx, Engels, and Lenin (all of whom had greatly influenced Castro), the Cuban people were shown the alleged "true face" of American capitalism--economic warfare upon a small and peaceful state trying to put its own house in order. In short, American practice was used to confirm Marxist-oriented theory which has been fed to the Cuban people through every means possible. It should be added, too, that to the Cuban leader himself the embargo was an unwarranted act of coercion which had the effect of sealing in what appears to have been a rather confused, emotional mind a conviction of basic antagonism between a socialist Cuba and a capitalist United States. The United States, it seemed, was acting in its traditional role and apparently could fit into no other. The many conflicting reports concerning Castro coming from the immediate post-revolutionary period in Cuba attest to Fidel's essential wavering and confusion. The boycott, in short, aided in his decision-making concerning the fate and pace of the Cuban revolution as well as its direction. A total socialization of the island became the official goal and the United States recognized as the common enemy.

In addition, because it bore down upon the middle classes in particular--those with cars, American consumption patterns, etc., who were most directly dependent upon American supplies--it helped to reduce the status of this class and bring about its dissolution. Inasmuch as the middle class is often considered a force tending toward democratic ways, as well as a voice of moderation, the embargo again proved detrimental to the aims of the American government.

The boycott also provided the Castro regime with a packaged excuse for any and all failures. In assessing the problems and failures of the revolution, the criminal imperialist boycott is always mentioned, as perhaps it should be. In this fashion, however, some grass-roots discontent has undoubtedly been shifted from the regime and its policies toward a foreign enemy--the United States. Within the government itself, however, the boycott has only been marginally mentioned as an excuse for failures, with emphasis being on the rectifying of those administrative blunders and misallocations which are capable of correction by the Cubans themselves.

The propaganda value of the boycott as a means of engendering hatred for the United States and as a palliative for domestic discontent should not be underestimated. The political content of all communications media in Cuba is very strong. Coupled with total nonintercourse--both political, but particularly, economic and personal--with the United States and its citizens, a rather distorted and ugly image of America and Americans has been created. For example, via arithmetic problems requiring the addition of the number of lynchings in the United States in 1900 and 1910, so as to practice correct addition, an image of America

has been created which could only be maintained in the total absence of direct contacts. As these children grow the combination of their teachings plus the absence of data or experience to the contrary will tend to cement in their minds an anti-Americanism which may well become an integral part of the Cuban heritage in the future.

In addition to these results, it should be mentioned that within the Western camp itself tension arose over the American embargo. The United States has requested compliance from its allies and applied pressure in this direction. This pressure was rather coldly taken in most Western capitals and relations between the United States and its allies became mildly strained over this issue.

On the positive side, it should be recalled that some of the incidence of the boycott was clearly shifted to the socialist camp, particularly to the Soviet Union. Trade and aid to Cuba has been quite costly for the Russians and it has not been possible for them to continue trading with Cuba at substantial surplus balances without at the same time reducing efforts in other directions such as military and space programs, consumer goods, expansion in agriculture, industrial development, housing, etc. The satellites, too, have borne this expense. As early as 1963 it was reported that there was evidence "that this burden is being felt, especially in bloc countries like Czechoslavakia which has assumed a major portion of this load."[163]

In measuring the political success of the boycott, it must be asked just what were the alleged purposes and goals. Without doubt the

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[163] S. Synnestvedt, "Red Drive in Cuba," Current History, October, 1963, p. 242.

toppling of the Castro regime seems to be the major purpose. If it was believed that domestic discontent would force Castro to resign, this obviously has not been the case. If it was felt that if a resignation was not forthcoming, a new leader would be found--perhaps through violent means--this too has not come to pass. If the purpose was to keep Cuba from pursuing its original flirtations with the communist camp, this has obviously not taken place and indeed, probably resulted in just the opposite. In short, despite the significant economic effectiveness of the embargo, it has been and is likely to continue to be a failure as a tool for attaining the desired political ends. Without question discontent with Castro's policies toward the United States and the socialist bloc does exist. In addition, severe economic hardships have been felt by most segments of Cuban society. However, the existing discontent has little opportunity to express itself as a political force due to the almost total control which Castro exercises over the Cuban polity. Domestic economic hardships, then, have not been translated into political action due to the difficulty, if not impossibility, of an effective political opposition arising.

Of secondary importance, however, may be the likelihood that the embargo was in part a simple act of reciprocity, perhaps to show that the massive nationalization of American properties without quick and just compensation would not pass unnoticed and unanswered by the United States government. As such it may also have been a warning to other nations within the hemisphere. As to its effectiveness in attaining this political goal, it is difficult to judge. Clearly, however, if considered at all, these ends were secondary. And while it is possible

that they may have given a certain hesitancy to other Latin governments in their own individual actions and policies, such a hesitancy (if it exists) is not likely to endear this government to others in the hemisphere.

CHAPTER III

ISRAEL

Historical Background

Israel occupies an irregular, narrow strip of land in southwestern Asia. The state is bounded on the north by Lebanon and Syria, by Jordan on the east, by Egypt on the southwest, and by the Mediterranean Sea on the west. The traditional (pre-June, 1967) political boundaries encompass an area approximating three-fourths of Palestine, a British mandate prior to 1948. Almost half of Israel, principally the southtern portion, is a desert (the Negev). While the state of Israel is itself a relatively new nation, the area is one of the oldest in terms of organized human civilization.

In biblical days the region was known as Canaan and Philistia, named for the tribes of people inhabiting the countryside. The Hebrews, led by Joshua, came to the land (probably sometime between 1400-1200 B.C.) and established themselves as permanent residents. In time they became masters of the region and it remained their home until the Romans destroyed the Hebrew state and dispersed them to other places in the year 132 A.D.

It should not, however, be thought that Palestine (as it came to be called) was a true Hebrew entity in either the political or cultural sense. It was rather a land of small divisions and heterogeneous tribes.

But the Hebrews (Israelites) gradually outdistanced the others and became the dominant group. Their kingdom reached its zenith under King Solomon (970-930 B.C.) by successfully subduing the Philistines and exercising influence even beyond what were considered to be the normal boundaries of Palestine. After Solomon their power steadily waned. Factions arose and the Israelites divided themselves into two separate states, one called Israel and the other, focusing around Jerusalem, called the Kingdom of Judah. Religious and cultural ties seemed to remain, but politically and militarily the Jews were weaker. The Kingdom of Israel soon fell to the Assyrians, with Judah "unconquered" only by submitting to Assyrian suzerainty. But by approximately 600 B.C. Judah also fell--to Babylonia, the new great power of the region. Jerusalem was sacked and many were deported into slavery. This constituted the first important dispersion of the Jews away from the land of Israel. While in this "Babylonian captivity" the first yearnings for a "return to Zion, to the land of Israel," were heard.

Palestine possessed some natural wealth and was an important trading outlet for the Asiatic hinterland. For this reason the great civilizations of that time struggled for its control. The land later came under the domination of the Persians,[1] followed by the Greeks, and then the Syrians. The haste with which the Seleucid rulers of Syria attempted to Hellenize the Jews provoked a popular uprising and resulted in an independent state once again. The independence was short-lived.

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[1]Cyrus the Great, after capturing Babylonia, gave the Jewish exiles permission to return to their homeland. Many did so, while others attempted to return but fell short of their goal.

The country allied itself with Rome, but domestic autonomy became so greatly reduced that Palestine became no more than a Roman province. However, rebellions and uprisings against Roman rule recurred almost constantly until the Roman army occupied the country in 70 A.D. and sacked Jerusalem. This quelled similar attempts at indpendence until 132 A.D. when one last attempt was made to overthrow the Romans. The bloody fighting ended in 135 A.D., with Jerusalem being destroyed and many Jewish captives once again sold into slavery and dispersed to other lands.[2] Jews were forbidden upon pain of death to come within sight of Jerusalem. Once again the cries to return to Zion came to the fore. They became an integral part of the Jewish culture and religion, a driving force holding Jews throughout the world to a common cause.

With this second dispersal the history of the Jews as a separate political entity, a nation, came to a close. Of course, there still existed in Palestine many Jewish communities and Jewish elements. However, by the third century (A.D.) Palestine became heavily populated with non-Jews such as Greeks, Arabs, Gauls, and North Africans.

With the division of the Roman Empire Palestine became a part of Byzantium. Around 630 A.D. the Arab invasions began to make a serious dent in the Byzantine defense of the area, and by 640 the whole of Palestine and surrounding areas belonged to the Arabs. After the Crusades were begun, possession of Palestine passed back and forth for 200 years. From 1516 until the end of World War I it was a part of the Turkish Empire. It was then that the British drove the Turks out.

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[2] "Diaspora" came to be the term used by Jews to describe these dispersals. It connoted an involuntary separation from the homeland.

During this entire period the Jews of the Diaspora were subjected to rising tides of anti-Semitism. They were expelled from Spain in 1492, given second rate citizenship almost everywhere they went, and were forced to live together in "ghettoes," in inescapable slums which were often subject to mob attacks, heavy taxes, and poor health and sanitary facilities. Such conditions could only strengthen the desire to return to Zion.

And throughout the years of the Moslem domination of Palestine there was always a fairly constant number of Jews who did return. But it was not until the 19th century that the desire to return was transformed from a religious and cultural ideal to a concrete political goal. As Elston puts it,

> On the whole, however, each generation in the Diaspora foresaw the return as something awaiting not his own but some future generation. The notion of hastening ancient prophesy and taking practical steps to re-establish a Jewish homeland in Eretz Israel [the Hebrew term for "land of Israel"] developed as a politically organized effort only in the nineteenth century.[3]

This effort, of course, became known as the Zionist movement. It existed in one form or another as early as the 1870's and steadily developed on a world-wide basis. The Zionists accumulated funds and began a drive to build a Jewish homeland. They asked Great Britain to urge or pressure Turkey to allow Jewish colonization in Palestine and the setting up of a somewhat autonomous community. Britain tried, but there was little she could do. Turkey was unwilling. In 1903 Britain offered, as an alternative, to give part of British East Africa to the

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[3] D. R. Elston, The Making of a Nation, London: Oxford University Press, 1963, p. 9.

Zionists for the establishment of a Jewish home with local autonomy. This idea appealed to several of the Zionist leaders, but the majority rejected it. Only Palestine, the land of the Israelites, would do.

In the meantime the Zionists aided settlers in Palestine to survive, bought land, and sponsored waves of immigrants from Europe and Russia to the Palestine shores. But as Zionism grew and prospered a movement of Arab nationalism, of freedom from the Turks, also began. Populationwise, of Palestine's 630,000 inhabitants in 1914, roughly 80 percent were Moslems, 9 percent Jews, and 11 percent Christians.[4]

In 1916 an Arab revolt, with British support, against the Turk rulers began. The revolt prospered, and in 1917 a British army invaded and occupied Palestine.

In the same year the Balfour Declaration was issued by the British Foreign Secretary. It was addressed to Lord Rothschild, and read as follows:

> I have much pleasure in conveying to you on behalf of His Majesty's Government the following declaration of sympathy with Jewish Zionist aspirations, which has been submitted to, and approved by, the Cabinet: "His Majesty's Government view with favor the establishment in Palestine of a National Home for the Jewish people, and will use their best endeavours to facilitate the achievement of this object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country." I should be grateful if you would bring this declaration to the knowledge of the Zionist Federation.

This declaration contained what turned out to be two incompatible parts: The establishment of a national Jewish homeland and the preservation in the same country of the civil and religious rights of the Arabs. It is

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[4] S. N. Fisher and G. Kirk, "Palestine," in Collier's Encyclopedia, Vol. 18, New York: Crowell-Collier Publishing Company, 1965, p. 367.

not within the scope of this paper to discuss which side was at fault, or how much each side was at fault. The only thing which here needs to be said is that it was hoped both Arabs and Jews would be able to live peaceably together, to come to some accord. However, as all subsequent events have indicated, an accord has never materialized.

In 1922 the League of Nations made Palestine a British mandate. Both Arab and Jewish pressure groups vied for British favor. Meanwhile, the spirit of the Balfour Declaration and other reassurances by Britain had turned the promise of a return to the homeland by future generations into a possible reality in that generation. Jewish immigration increased, and Zionist efforts in, for, and about Palestine continually grew. This growth of Zionist activities alarmed many of the Arab leaders, and a general discontent was in evidence among the Arab population. Between 1936 and 1939 Palestine was plunged into civil war between Jews and Arabs.

During this time a change in British policy had gradually been evolving. Whitehall began to placate the Arabs more and more, and the Jews, less and less. This culminated in the White Paper of 1939 which stated that the obligation to create a national home for the Jewish people had been fulfilled and that further Jewish immigration was to be dependent upon Arab consent. This seemed to condemn the Jews to a minority status in "their national homeland," and Zionists the world over were disappointed. Statistics for 1944 reveal that Palestine's

population had increased to almost 1.7 million, of which 30 percent were Jews and 61.4 percent Moslems.[5]

Much of the civil strife stopped during World War II as Arabs and Jews fought together under the British. Nevertheless, enmity remained and both sides girded for a postwar struggle. After the war, although Britain formally permitted only a small number of Jews to enter Palestine, thousands left a war-torn and impoverished Europe and illegally entered the "promised land."

In 1947, unable to establish a working accord between the Jews and the Arabs, Britain announced its intentions to give up the mandate. The problem was then placed before the United Nations, which decided to create separate Arab and Jewish states in Palestine. When the British mandate ended on May 15, 1948, the Jews of Palestine immediately proclaimed themselves the State of Israel and organized a provisional government.

Fighting between Jews and Arabs intensified, and Arab League soldiers from the neighboring Arab countries entered the struggle. A bloody war ensued, ending with the Jews still in possession of the land for which they fought.[6] Armistice agreements were signed between Israel and four Arab countries--Egypt, Lebanon, Jordan, and Syria--and peace negotiations were attempted.

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[5]Esco Foundation for Palestine, _Palestine: A Study of Jewish, Arab, and British Policies_, Volume II, New Haven: Yale University Press, 1947, p. 1050.

[6]In fact, the Israelis were in possession of a larger slice of Palestine than had been contemplated in the original United Nations' recommendations.

The United States had given recognition to Israel on the same day that she declared herself to be a state. Russia extended recognition three days later. By 1949 most of the member states of the U. N. except, of course, the Arab bloc had given de jure recognition to Israel, and on May 11, 1949, the General Assembly, acting on the recommendation of the Security Council, admitted Israel to full membership.

Arab-Israeli relations have failed to improve over the past 21 years. In fact, they have probably deteriorated. The bones of contention are several. Perhaps foremost is Israel's very right to exist as a political entity. Secondly, even granting Israel's right to existence, the question of boundaries and the status of Jerusalem are major points of conflict. These issues have, of course, become even more important since the June, 1967, hostilities when Israeli forces captured vast areas of Arab territories.[7] Finally, another burning issue is the refugee problem. Unfortunately, the possibilities for some accord seem more remote than ever. Israel's recent victory in the Six-Day War has only aggravated the situation, this third military defeat further embittering the Arabs, augmenting the refugee problem, enlarging Israel's frontiers (see Figure 1), and increasing Arab fears concerning Israeli expansionist aims. The hopelessness of the situation is thus brought to the surface. In neither peace nor war have Israel and the Arab states been able to reach any mutual ground which would allow for peaceful coexistence in the Middle East.

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[7]The occupied territories, chiefly Gaza, the Sinai, and the West Bank of the Jordan have more than doubled the area of Israel's political jurisdiction. See Figure 1.

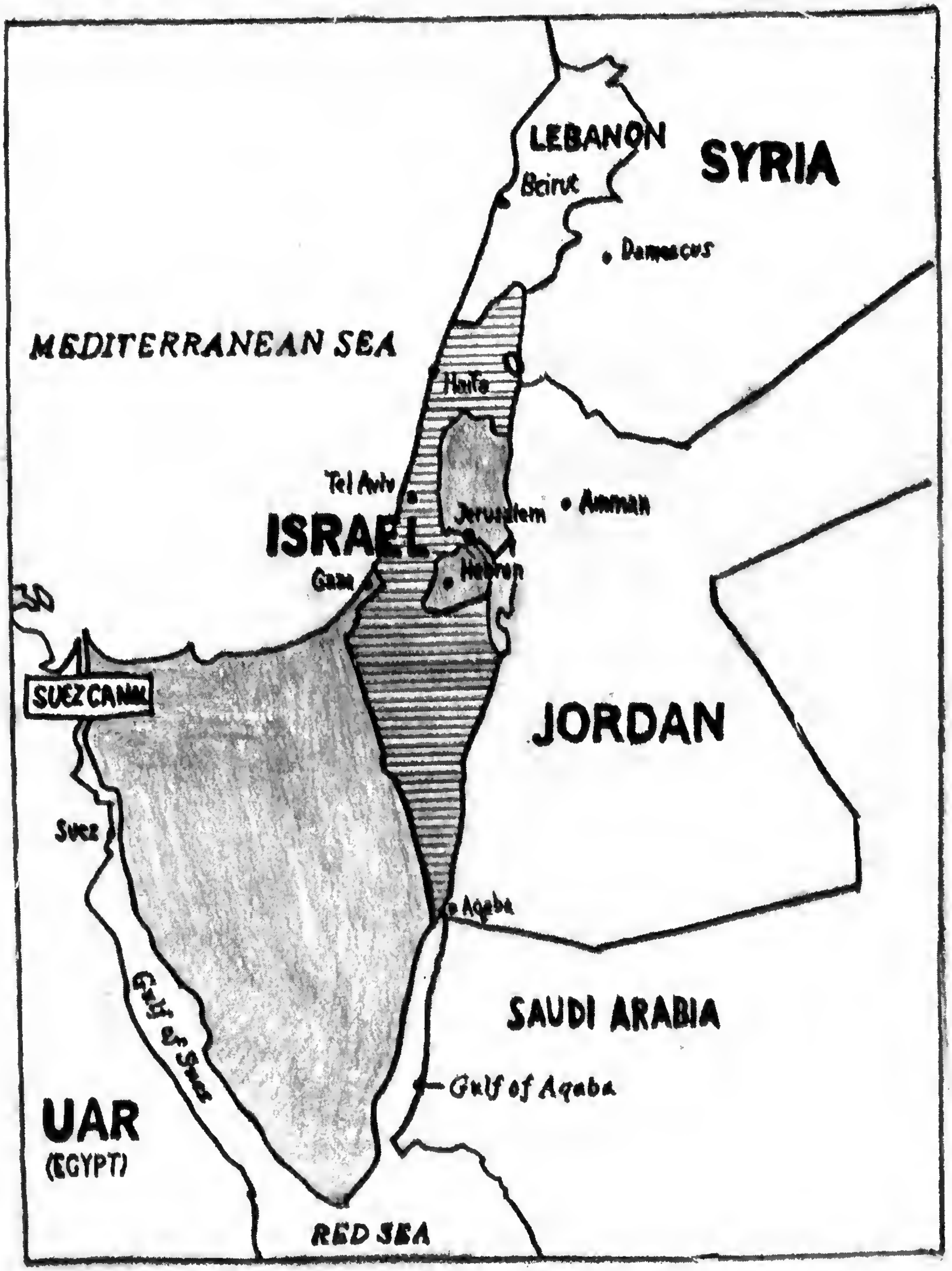

Figure 1. The Middle East

Note: Horizontal lines indicate Israel's pre-1967 boundaries. Shaded areas represent Israeli-occupied lands.

Source: Reproduced, with modifications, from the Washington, Pennsylvania, Observer Reporter, January 17, 1969, p. 1.

The Israeli Economy--An Overview

Israel's resource base is meager. The country is small, lacks rainfall, but is at the same time subject to serious soil erosion problems. The major source of mineral wealth is the Dead Sea, possessing a bountiful supply of chlorides--magnesia, sodium, calcium, and potassium. A very small amount of oil and natural gas has been discovered, but the prospects for further discoveries are poor. Since Israel is also without coal and hydro-electric power, "the sole source of energy is thermo-generated electricity which depends on imported fuel."[8] Phosphate, gypsum, and limestone are also available. Beyond these, there are few other natural assets. In short, Israel's natural wealth is quite limited. A summary of the basic data for the Israeli economy is presented in Table 23.

The Economic Structure of Palestine

An understanding of the impact and opportunity costs of the Arab boycott requires an examination not only of Israel's contemporary economic structure, but some familiarity with the economic organization and trade patterns of Palestine during the first half of the twentiety century, particularly during the period of British rule.

During the approximately 30 years of the Mandate period Palestine experienced a rather remarkable growth. The population more than doubled and the area of cultivatable land increased by one-third. Localized

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[8] D. Horowitz, The Economics of Israel, New York: Pergamon Press, 1967, p. 6.

TABLE 23

BASIC DATA OF ISRAELI ECONOMY

POPULATION	
1964 average estimate	nearly 2.5 million
Immigration 1948-63	1.1 million
AREA	20,255 kilometers
Of which cultivated (1963/4)	21.5%
Irrigated area as percent of cultivated area	35.6%
TOTAL AVAILABLE RESOURCES (INCLUDING IMPORT SURPLUS) IN 1964	IL[a] 12,639 million
Of which invested	23%
Per capita income	$800
AVERAGE ANNUAL GROWTH RATES, 1950-64	
Gross National Product	10-11%
Gross National Product *per capita*	about 6%
GOVERNMENT FINANCE 1965/6 (in IL million)	
Ordinary revenues	2920
Ordinary expenditures	2665
Current surplus	255
Capital receipts	760
Capital expenditures	1000

[a]Israeli pound. Over the 1962-1967 period the Israeli pound was valued at $3 (U.S.).

Source: Horowitz, p. 11.

urbanization occurred, the Haifa port and refinery were constructed and the general standard of living and levels of education and health improved substantially, particularly in the urban areas.

This progress has been attributed to four factors:[9] (1) the establishment of a relatively efficient and progressive public administration by the British; (2) growth of the Arab population and its development of social, political, and economic consciousness; (3) the settlement of Jewish immigrants and the accompanying inflows of capital and skills; and (4) World War II, which gave a great spurt to industrialization via contracts from the military and enforced trade protection.

It should at this point be stressed that the term "economy of Palestine" may be misleading and any references to the entire economy may conceal as much as they reveal. The reasons for this are the economic, political, and cultural differences which characterized the Jewish and Arab sectors so that each constituted separate and distinct communities, with interrelations held to a minimum. What was rife in one sector may have been very rare in another. Where possible, then, they will be examined separately.

One fundamental contrast between the two sectors was the occupational structure and basis of earnings of each. During the 1930's agricultural pursuits provided less than one-tenth of the income of the

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[9] Edmund Asfour, "The Economic Framework of the Palestine Problem," in W. R. Polk, D. M. Stamier, and E. Asfour, Backdrop to Tragedy, Boston: Beacon Press, 1957, p. 311.

Jewish sector, but almost three-quarters of the non-Jewish income total.[10] The Jewish economy was mainly populated by European immigrants with far higher levels of education than the Arab sector and a generally modern orientation. Jewish per capita incomes were significantly greater essentially due to three factors: (1) the relative greater productivity of Jewish workers; (2) the greater relative concentration of the Jewish sector in the higher income-yielding occupations; and (3) the greater proportion of workers as a percentage of total population, no doubt in large measure due to the relatively high nonparticipation by Arab women and to the differing age compositions of each group (higher proportion of young dependents in the Arab sector). For the 1930 decade approximately one-fifth of those employed in the Jewish sector were engaged in agriculture,[11] despite the fact that agricultural pursuits yielded the lowest per capita income. This high proportion was essentially due to the non-economic criteria upon which Jewish agriculture was based. Zionist efforts, in short, were based more upon social and political considerations. Jews had for centuries been deprived of the right to own land and steeped in Zionist ideology seemed to be a desire to allow the Jew to till the soil and to prove his agricultural abilities. In addition, the desire for relative autarky was strong, particularly in view of the mutual suspicions and hostilities of the two sectors. Thus, reliance upon Arab supplies of food was minimized, despite the economic rationality

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[10] Robert Nathan, Oscar Gass, and Daniel Creamer, Palestine: Problem and Promise, Washington, D. C.: Public Affairs Press, 1946, p. 147.

[11] Gur Ofer, The Service Industries in a Developing Economy: Israel as a Case Study, New York: Frederick A. Praeger, 1967, p. 88.

of comparative advantage which suggested a shift of Jewish resources out of agriculture into higher-yielding pursuits.

Jewish agriculture was organized on a village basis as a rule, with the settlements being based upon differing forms of ownership--individual, collective, or communal. From 1931 to 1939 the number of agricultural settlements more than doubled, reaching 252 in 1939.[12] Although approximately three-fourths of the total cultivatable land in both Jewish and Arab sectors was devoted to cereals and grains, citrus was nevertheless by far the single most important crop in terms of value of output. The industry underwent extensive development during the 1930's in both Jewish and Arab sectors.

The Zionist agricultural settlements were exclusively Jewish and generally surrounded by Jewish-owned land, thus resulting in little, if any, contact with Arab villages. For this reason, the more modern methods of Jewish agriculture were seldom directly observed by the Arabs, although the increased competition in the sale of output and the knowledge that new methods were being employed no doubt had some stimulating impact. Unfortunately, the major contacts between the two sectors occurred in the cities and towns almost exclusively; hence, Arab agriculture benefited little from the influx of skills, capital and technology which the Jewish settlers brought. Although the British, in administering the Mandate, were responsible for developing the transport and communications systems and many of the public services and utilities, no basic attack on the problems of Arab agriculture was

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[12]Esco Foundation, p. 686.

launched. Changes in the system of land tenure and other social arrangements of long standing were necessary; in addition, the provision of credit facilities, land reclamation and irrigation, and a number of other far-reaching measures were needed. None, however, were forthcoming in sufficient magnitude, if at all.

Nevertheless, Arab agricultural progress under the Mandate was great, then supporting approximately 300,000 more people at a higher standard of living in 1944 than 25 years earlier.[13] "Moreover since the Arab urban community was also better off, Arab farmers had almost no produce to sell on Jewish markets [1943-1944]. As a matter of fact, several thousand tons of Jewish produced potatoes were sold on Arab markets."[14] This is just one of the many exchanges between the two sectors, despite their relative isolation.

Although cereals represented Palestine's major crop in terms of area of cultivated land, citrus was the leading commercial crop. Citrus production was almost wholly for export and constituted the major source of export revenues. Table 24 indicates that approximately three-fourths of export earnings during the second half of the 1930's derived from citrus. In terms of areas under cultivation devoted to this crop, the Arab and Jewish sectors were roughly equivalent, although as a percentage of the total areas of each, citrus was almost four times as significant in Jewish agriculture. By the late 1930's the citriculture absorbed 7-8 percent of total employment in Palestine and

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[13] Nathan, Gass, and Creamer, p. 198.

[14] _Ibid_.

TABLE 24

CONTRIBUTION OF CITRUS TO PALESTINE'S EXPORTS
(1927-1939)

Year	Total Exports	Citrus Exports	Citrus as % of Total
	(thousands of Palestine pound sterling)		
1927	1,900	814	43
1931	1,572	886	57
1935	4,215	3,131	74
1939	5,118	3,811	74

Source: Nathan, Gass, and Creamer, p. 209.

produced approximately 10 percent of the national income.[15] Table 24 shows the significant growth of output in the 1930's. "The share contributed to the exports by Jewish crops was about 37 percent in 1930 and 60 percent in 1939."[16]

There has been a traditionally heavy concentration of Jewish employment in the services industries, a concentration which continued into statehood. Thus, in 1931 45.4 percent of employed Jewish persons were in the service sector; in 1936 this rose to 49.1 percent and by 1939 included one-half of the total employed.[17] The bulk of those in the Jewish service sector were engaged in commerce, mostly transportation and trade, but a small portion in finance as well. Personal services embraced almost 11 percent of total Jewish employement while government and public services absorbed approximately 15 percent.[18] Interestingly, as "much as one-fourth and one-fifth, respectively, of Jewish and non-Jewish income was derived from trade and motor transportation, which attests the dominance of the petty merchant in both economies."[19]

The heavy concentration of Jewish employment in the services sector is a function of a variety of factors, not the least of which has been the occupational distribution of Palestine's (and Israel's) Jewish immigrants which was heavily concentrated in this area. Another

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[15] Ibid.

[16] Esco Foundation, p. 687.

[17] Ofer, p. 88.

[18] Ibid.

[19] Nathan, Gass, Creamer, p. 147.

reason, pointed out by Ofer, is that in the intersectoral trade which did occur, the Arab sector made extensive use of Jewish services, particularly those relating to trade and commerce, but also medical and professional services as well. Ofer explains:

> Part of the overconcentration in trade and "other public services" in the mandatory period can therefore be ascribed to the export of these services to the Arab sector. The Jewish sector was able to carry out this export because of the higher level of development and the occupational structure of its population, which gave it a comparative advantage in the supply of commercial and professional services.[20]

Unfortunately, the hostility between the two groups kept economic intercourse to a far smaller volume than it might have reached. Ofer continues: "If relations between the two sectors had been normal, and if simple criteria of economic profitability had been applied, there is no doubt that there would have been much more intersectoral trade."[21] This point should be borne in mind later, as it indicates a trade potential between Israel and the Arabs, one which since 1948 has not been utilized.

By the end of World War I Palestine's manufacturing development had not yet passed far beyond the handicraft stage, a fact quite understandable in light of the traditional agricultural orientation of the Arab population. However, the influx of Jews from Europe--about 452,000 between 1919-1948--[22] had significant impact upon Palestine's nascent manufacturing activities. As Jewish immigration increased--bringing

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[20] Ofer, p. 114.

[21] Ibid.

[22] Ministry for Foreign Affairs, Facts About Israel, 1963, Jerusalem: Government Press, p. 46.

with it capital inflows, technological skills, and entrepreneurial abilities--the manufacturing sector began to develop. By 1946 probably five-sixths of those employed in manufacturing worked in Jewish enterprises. These enterprises in turn accounted for "a somewhat larger fraction of the total net value of manufacturing output."[23] Unfortunately, the employment of Arab labor in Jewish manufacturing was not very great due to the existing antagonisms and the reluctance of Jewish enterprises to become dependent upon Arab help. This was particularly the case during the serious disturbances of the 1936-1939 period. Without doubt, this impeded the development of Palestine's industry as Arab labor costs tended to be much lower than Jewish. Since much of the labor needed was unskilled, the productivity gap of the Arab worker was not necessarily very far behind that of the Jewish worker, hence the resulting unnecessary increases in costs (due to hiring Jewish labor almost exclusively) inhibited manufacturing development. Manufacturing activities, then, were an area of the Palestinian economy clearly dominated by the Jewish sector.

The role of manufacturing in Palestine reflected a strong correlation with the rate of growth of the Jewish population. The bulk of production was devoted to consumer goods for sale locally, and the industry was essentially located in the cities of Tel Aviv, Jerusalem, and Haifa, the areas of concentrated Jewish urban settlement. Although some processing of raw material occurred, Palestine's scanty resource base prevented much progress in this area.

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[23]Nathan, Gass, Creamer, p. 220.

The majority of manufacturing establishments were individually owned and relatively small-scale in size. The corporate form of business organization accounted for only 3 percent of all enterprises, although these were dominant in food processing, textiles, chemicals and stone and cement industries.[24]

The modesty of Palestine's manufacturing development is perhsps indicated by the fact that during the 1938-1939 period the value of imported manufactured goods almost equalled the value of amounts domestically produced during that same period. In addition, manufactured goods exports were next to nothing. As one group of experts concluded, "It is manifest that Palestine's manufacturing had not come of age prior to World War II although it had emerged from its childhood."[25] Table 25 summarizes Jewish industrial establishments for the year 1936. The heavy investment in electric power (shown separately) is of note.

While Arab industrial development was very minor, by the late 1930's it had grown and does merit some discussion. The number of persons employed was estimated at over 6,000 in 1939, working in very small shops, generally without power-driven machinery.[26] In general Arab manufactured goods were noncompetitive with Jewish industries "since most of the Jewish output was confined to articles not produced or used by Arabs."[27] There were some areas of common ground, such as articles of clothing, soap, cigarettes, shoes, and a few other items, but here too competition was limited as the kinds and quality of the goods demanded

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[24]Ibid., p. 224.

[25]Ibid., p. 226.

[26]Ibid., p. 230

[27]Esco Foundation, p. 696.

TABLE 25

JEWISH INDUSTRIAL ESTABLISHMENTS
(JEWISH AGENCY CENSUS 1937)

	Establish-ments	Personnel: Owners and Workers on Census Day	Output: Full 12 Months LP	Capital LP
Food	383	3,929	2,305,000	1,651,000
Textiles	116	1,576	377,000	484,000
Clothing	1,207	3,450	546,000	286,000
Metal works	600	2,765	788,000	710,000
Machinery	433	1,476	301,000	255,000
Timber products	657	3,011	806,000	482,000
Leather works	683	1,830	420,000	199,000
Paper products, printing	425	2,821	597,000	583,000
Chemicals	91	2,054	888,000	1,600,000
Stone, cement, etc.	251	3,286	1,069,000	1,322,000
Electrical machinery	122	539	144,000	115,000
Miscellaneous	634	1,879	285,000	249,000
Total	5,602	28,616	8,526,000	7,936,000
Electric plants	4	1,370	583,000	3,701,000
Total	5,606	29,986	9,109,000	11,637,000

Source: Esco Foundation, p. 696.

by each sector differed. Nevertheless, economic interchange did take place, the estimate being that approximately 10 percent of Jewish industrial output, composed mainly of electricity, found its way into Arab hands.[28] This estimate, however, did not take into account retail purchases of Jewish goods by Arabs from Jewish merchants, nor did it include Jewish industrial exports to the surrounding Arab countries. Arab products penetrated the Jewish sector somewhat more easily since the prices were generally lower due to lower Arab wages. Finally,

> There was one important branch, namely the building trade, in which the Arabs had the advantage since they possessed a virtual monopoly in stone quarrying and dressing and in the lime industries. The investment in building was predominantly Jewish, while the supply of materials has largely been in Arab hands.[29]

Again, despite the hostility between Zionists and Arabs, and the mutual attempts at isolation,[30] the cost advantages of specialization and trade nevertheless resulted in economic intercourse.

World War II had a very significant impact upon the structure and activity of the Palestinian economy. The immediate effects were negative: citrus exports declined precipitously as did revenues from the tourist trade; inflows of private Jewish capital were very greatly curtailed and this had particularly damaging effects upon the housing and construction industries. Coming on the heels of a virtual civil war, the Palestinian economy was left in a rather depressed condition. However, strong stimulating effects were soon felt, Thus,

> the disruption of overseas trade raised the demand for local manufactures. It provided local industries with almost total production

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[28]*Ibid.*, p. 697. [29]*Ibid.*

[30]To protect themselves against cheap Arab competition, some Jews effected what amounted to a boycott of Arab production and expected their fellows to do the same.

> from outside competition, and it opened up new markets in those other Middle Eastern countries that were also cut off from their regular suppliers, but lacked the necessary industrial nucleus.[31]

In addition, the contracts received from the military authorities represented still another source of demand for the industrial sector. These contracts, valued at LP 1 million in 1940, rose to LP 4 million the next year and doubled again by 1942.[32] Although the entire economy had been stimulated, the manufacturing sector grew more rapidly than the others. The areas of greatest expansion were war-related products, such as metals, machinery, and the newly introduced polishing of industrial diamonds. Both Arab and Jewish industrial development were spurred, although the latter increased much more significantly. The only areas of decline were construction and related industries. As would seem inevitable, the artificial stimulus which derived from the war was not sustainable by itself. With the abatement of military expenditures, the manufacturing boom began to wane. "By 1944 the impetus which the war had given to the development of manufacturing was spent. In the following year, the absolute growth of manufacturing was checked . . . ."[33]

In agriculture, the war-induced shortage of shipping had a catastrophic effect upon citrus exports. Despite government loans, which in fact extended to less than two-thirds' the planted area, citrus farmers were dealt a body blow. Abandoned groves were estimated in value at

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[31] E. Kleiman, "The Place of Manufacturing in the Growth of the Israel Economy," Journal of Development Studies, April, 1967, p. 231.

[32] B. Weinryb, "Industrial Development of the Near East," Quarterly Journal of Economics, May, 1947, pp. 471-499.

[33] Kleiman, p. 231.

LP 2.5 million.[34] The debt of citrus farmers mushroomed and both Arab and Jewish citrus positions at the beginning of the postwar period were very deteriorated, although the Arab sector was probably in a slightly superior relative position.

During the war, import restrictions were implemented and although Palestine did not suffer extreme food shortages, imports were curtailed significantly. This, of course, led to domestic price increases, inflation, and a general boom for the rest of Palestine's agriculture. The inflation meant a high cost of living, particularly in the urban centers, but also considerably improved the position of the Arab Fellaheen (farmers) who were large net debtors. Ths most important price increases occurred in the characteristic Arab produce, particularly cereals and mutton. Interestingly, when the government of Palestine attempted to establish price ceilings, Palestinian wheat was smuggled out of the country and then sold to the government at higher import prices. Jewish agriculture (again excepting citrus) was also greatly stimulated, resulting in "a two-thirds expansion in Jewish mixed farming output and . . . a substantial rise in the standard of living of the Jewish farming population."[35]

With respect to individual commodities, major expansions of output occurred in cereals, the production of milk and eggs, and fresh vegetable production. Looking at Palestinian agriculture as a whole, it is safe to conclude that it seemed to be developing, and as such, was

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[34] Nathan, Gass, Creamer, p. 212.

[35] Ibid., p. 213.

becoming less self-contained and more integrated with (and dependent upon) the rest of the general economy. In addition, the output increases meant considerable progress in the direction of agricultural self-sufficiency, thereby lessening one demand upon foreign exchange.

No discussion of Palestinian economic conditions can be complete without an investigation of the international sector. Indeed, it has been suggested that during the decade of the 1930's the "most striking economic development in Palestine was the growth of foreign trade."[36] International trade possessed four outstanding characteristics:[37]

1. A very high rate of trade per capita, one several times as great as the corresponding figures for similarly situated nations such as Egypt, Iraq, Syria or Turkey, and almost as large as those for the United Kingdom and Sweden, which were among the world's most advanced trading states.

2. A very large unfavorable balance of trade, one which computed on a per capita basis was probably the highest in the world.

3. A very large proportion of capital goods imports.

4. The very heavy concentration of exports on one product--citrus--directed largely toward one market, the United Kingdom.

Essentially, all four characteristics derive from the fact that Palestine was an underdeveloped, yet developing area which was being colonized by an intensive stream of immigration. It may therefore be characterized as a "young debtor nation" for which imports acted as one of the main forms of capital investment.

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[36] Esco Foundation, p. 729.

[37] D. Horowitz and R. Hinden, Economic Survey of Palestine, Tel Aviv: Economic Research Institute, 1938, pp. 118-121.

Table 26 presents Palestine's balance of trade for the 1930-1939 period. Each year witnessed an adverse trade balance, with annual imports averaging more than three times the value of exports. Although often considered unsound, an unfavorable balance of trade in this instance was simply a sign of development and incipient industrialization. Importantly, the method of financing the trade imbalances did not create a heavy drain on future balance of payments positions. As one study noted:

> Because of the character of Jewish immigration into Palestine, the excess of imports over exports is not financed by borrowing as is usual in other countries. It is financed by the capital that the immigrants bring with them. Thus the excess of imports does not create a foreign indebtedness payable in foreign exchange.[38]

This trade deficit was the result of several factors. In the first place, Palestine's agricultural production was not sufficient to satisfy the nation's food requirements. In addition, both the reluctance and the slowness of the Jewish immigrants to change their food-consumption habits from their former patterns to a more Middle Eastern diet meant that even if domestic food production increased considerably, many imports would remain. A second factor which inflated imports was the demand for manufactured consumer goods, particularly in the Jewish sector. Since domestic manufacturing development had been rather slow, only imports could satisfy this demand. In addition, manufacturing and industrial development had been handicapped by a deficiency of machinery, equipment and raw materials. Development vitally depended upon the ability to import these items so necessary for investment and growth.

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[38]Esco Foundation, p. 731.

TABLE 26

PALESTINE'S BALANCE OF TRADE
1930-1939

Year	Imports	Exports	Unfavorable Balance
		(in LP millions)	
1930	7.0	1.9	5.1
1931	5.9	1.6	4.3
1932	7.8	2.4	5.4
1933	11.1	2.6	8.5
1934	15.2	3.2	12.0
1935	17.9	4.2	13.7
1936	14.0	3.6	10.4
1937	16.0	5.8	10.2
1938	11.4	5.0	6.4
1939	14.6	5.1	9.5
Total	120.9	35.4	85.5
Annual Average	12.09	3.54	8.55

Source: Esco Foundation, p. 730.

Another factor of importance was the Open Door commercial policy pursued by the Mandate government. The Palestinian administration was very reluctant to afford even moderate tariff protection either to manufacturing or to other products. This policy was based upon Article 18 of the Mandate which stipulated that there should be no discrimination "against goods originating in or destined for . . ." any member of the League of Nations. The article was based upon a "belief that the Treaty of Versailles would usher in an era of free trade, or at least of equal treatment to all nations in international commerce."[39] Of course, another reason for this policy was to prevent the nation holding the mandate from securing especially favorable trade arrangements with the administered territory.

However, the world rapidly became protectionist and tariffs and other trade barriers, special trade arrangements, and similar measures soon became commonplace. Nevertheless, the government maintained its nondiscriminatory, nonprotectionist trade policies and granted no flexibility of trade arrangements to meet changing conditions. The results were unfortunate. Palestine "became an open market for dumping of foreign goods and Article 18 prevented it from retaliation or arranging mutually advantageous trade agreements . . ."[40] with other countries.

> Palestine producers were compelled to compete against goods forced on the export market by the industrial policies of the small post-Versailles nations and by the Axis powers aiming to obtain foreign exchange . . . . While the imports of subsidized products brought consumers the temporary advantage of low prices, they added handicaps to the young Palestinian production, both agricultural and industrial.[41]

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[39] _Ibid_., p. 733. [40] _Ibid_. [41] _Ibid_., p. 735.

"The weakness of Palestine's position--in following the straight and narrow path of multilateral trade while other nations were engaging in all kinds of bilaterial discriminations against her . . ."[42] was clearly evident by the second half of the 1920's. The Mandate's tariff policies were opposed by both Jewish and Arab sectors with respect to agriculture, and particularly by Jewish interests with respect to industry. By the middle 1930's the inimical effects of the open policy seemed well understood both in Britain and in League of Nation circles. Nevertheless, by 1938 little relief had been forthcoming. As Horowitz and Hinden stated, "In spite of this general agreement that Palestine is labouring under a justified grievance in trade matters, no concrete steps to alter the position have been taken."[43]

During the inter-war period Palestine's import structure was dominated by manufactured articles and food. For the period 1923-1939, "about 57 percent of Palestine's imports consisted of manufactured articles, 25 percent of food, drink and tobacco, 8 percent of raw materials, and 10 percent of miscellaneous and unclassified articles."[44] The oil passing through the Iraq-to-Haifa pipeline is not included in these figures as it was simply a transit item until 1940 when refining begain in Hiafa. During the prosperity period of 1932-1935 investment goods accounted for more than one-third of Palestine's total ordinary

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[42] Nathan, Gass, Creamer, p. 320.

[43] Horowitz and Hinden, p. 131.

[44] Nathan, Gass, Creamer, p. 321.

imports[45] and were, therefore, a major vehicle for growth. The major food items imported were wheat, wheat flour, cattle, fruits, sugar, butter, rice, sheep, goats, and fish. In terms of suppliers, the United Kingdom ranked first with 16.4 percent of Palestine's imports over the 1936-1939 period. Germany and Austria supplied just over 15 percent, this source of supply essentially a function of Germany's insistence that Jewish capital be exported only in commodity form. Syria, the United States, and Rumania followed with roughly 9 percent each, while Egypt supplied just under 4 percent. Manufactured goods imports came principally from Britain, Germany and Austria, and the United States, while the main suppliers of food and related items were Syria, Britain, Egypt, Rumania, and the United States.

The export picture was dominated by citrus products which generally were valued at 80 percent of total exports. Other agricultural exports--olive oil and other oils and small amounts of grain barely accounted for more than 2 percent. Western Europe was the major citrus market, with the United Kingdom generally purchasing between 60-70 percent of the total commodity exports. The principal manufactured goods exported were potash--comprising almost one-half the total--soap, bromine, artificial teeth, cotton yarn, threads, and other cotton products, clothing, books, and paper products.

The United Kingdom, by virtue of its citrus purchases, was by far the leading export destination, absorbing more than 50 percent of total exports. Syria followed, a distant second with about 9 percent, but was

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[45]Horowitz and Hinden, pp. 119-120.

Palestine's leading customer for yarns, tissues, and apparel. Holland ranked in third place, but purchased no more than 7 percent of total exports.

Looking at the trade balance with each major trading partner for 1937, it is found that favorable trade balances existed with only three countries--Britain, Holland, and Sweden. The largest deficit was with Germany, followed by Rumania, the United States, Syria, and Egypt.[46] It should be noted that the Middle East provided only 20 percent of Palestine's imports over the 1936-1939 period, and purchased only 12 percent of her exports.[47] The Middle East, then, was neither a major supplier nor a major purchaser, although the trade volumes were not insignificant. However, this position was characteristic of all the Middle Eastern states and relative to them, Palestine's intra-Middle Eastern trade was large. It should also be mentioned that on the invisibles account too, Palestine was much more closely connected to Britain and western Europe than to its immediate neighbors.

The balance of payments for 1936 and 1939 are shown in Table 27. In addition to the significant deficits resulting from the unfavorable trade balances, it can be seen that in both the tourist and interest and dividends accounts net deficits appear. Since payments on current account approximately doubled receipts, the imbalance was very large. However, the inflows of immigrant capital, religious and institutional

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[46] Horowitz and Hinden, p. 129.

[47] Nathan, Gass, Creamer, p. 323.

TABLE 27

PALESTINE'S BALANCE OF INTERNATIONAL PAYMENTS, 1936 AND 1939

	1936		1939	
	Payments received by Palestine	Payments made by Palestine	Payments received by Palestine	Payments made by Palestine
	(Thousands of LP)			
Merchandise:				
Exports	4,421		5,616	
Imports		12,762		14,564
Tourist expenditures	552	780		280(net)
Interest and dividends	550	500		200(net)
Individual remittances	1,300	1,000	200(net)	
Government transactions	300(net)		2,132	763
Other current transactions	100	270	100	300
TOTAL ON CURRENT ACCOUNT	7,223	15,312	8,048	16,107
Capital of immigrants and emigrants	6,556	1,000	7,750(net)	
Capital of "national" and religious funds	1,200		2,500	
Capital flow in private securities, banking, and other funds	1,000	800	188(net)	
Sale or purchase of currency	800(net)			3,017(net)
Gold and silver	251	157		427(net)
TOTAL ON CAPITAL ACCOUNT	9,807	1,957	10,438	3,444
Residual	239		1,065	
Total	17,269	17,269	19,551	19,551

Source: Nathan, Gass, Creamer, p. 317.

inflows, and other capital imports roughly balanced the current expenses of immigrants.[48]

As has already been suggested, the relative isolation of the Arab and Jewish sectors from each other minimized their economic intercourse. Nevertheless, trade did occur, with the normal flow characterized by Arab supplies of agricultural products and Jewish "exports" of manufactured goods and services. Despite the autarkic position taken by Jewish agricultural settlements, the needs of the urban communities required that between 6-7 percent of the Jewish food supply come from local Arab agriculture.[49] Such supplies, then, were obviously marginal (although artificially so) and were supplemented as well as occasionally supplanted by agricultural produce from neighboring Arab lands. In turn, the Jewish sector provided manufactured goods, an area in which it had comparative advantage. As already indicated, manufacturing was slow to develop and the limited output produced essentially, although not wholly, served the needs of the Jewish sector in which it was centered. Interestingly, "political considerations did not seriously impede the marketing of the products of Jewish manufacturing in the Arab sector, particularly after the outbreak of the war."[50] The Arab sector, then, accepted Jewish manufactures and this aided the development of Jewish manufacturing by broadening the market. Although again marginal, it

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[48]<u>Ibid</u>., p. 326.

[49]Esco Foundation, p. 1052.

[50]Kleiman, p. 230.

appears that Arab purchases were nonetheless significant. Indeed, a major study on the role of manufacturing condluded:

> It was by providing markets for manufacturers, rather than by supplying agricultural produce, that the existence of the local Arab sector can be said to have made possible the high share of manufacturing in the Jewish sector, especially in the period in which . . . Palestinian manufacturing was experiencing its most rapid growth . . . .[51]

As has already been implied, exchange between the Jewish and Arab sectors occurred mostly in the cities or near the cities. Arab wholesalers seem to have played a rather significant role in Palestine's distribution system, a fact which became evident in 1936 when open hostilities between Jews and Arabs began to create serious disruptions. Many Jewish merchants had been dependent upon Arab wholesalers and suppliers, which created a certain vulnerability when the unofficial boycotts began in 1936. "As a result Jewish merchants attempted to become independent of the Arab trader."[52] Besides wholesaling, intersectoral relations in urban retail trade were also common.

> Even during a year of riots some Jewish-owned stores had some Arab patronage. Based on sales experience in 1936, about 25 percent of the more than 5,000 retail stores reporting had mixed clientele. In the cities of mixed populations such as Haifa and Jerusalem, the percentages were 43 and 39, respectively, compared with 15 in Tel Aviv. Clothing, building materials, machinery and automobiles were the chief articles sold to the Arab trade.[53]

Again, it is obvious that intersectoral trade, although artificially constrained, was nevertheless significant.

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[51] Ibid.

[52] Nathan, Gass, Creamer, p. 272.

[53] Ibid., p. 278.

One final factor relating to the Palestinian economy in general, and to foreign trade in particular, merits note. This pertains to the potential for transit earnings which Palestine possessed. Writing in 1938, Horowitz and Hinden expressed great hope in this regard:

> External transport is destined to become one of Palestine's great industries. As the key to both the land and the air routes to the East, Palestine has a particularly valuable geographical situation. Haifa is well placed for the vast hinterland of Syria, Iraq, and Iran, and on the basis of this position, it has developed a transit trade of steadily growing dimensions.[54]

Nine years later another study was able to concur.

> There is general agreement that Palestine has enormous possibilities for the development of commerce and that it has, during the last decade or so, begun to be restored to its historic position as a center of trade between continents. The development of land, sea and air transportation moving from East to West and North to South is making Palestine an _entrepot_ of great importance in the Middle East.[55]

Although in large measure a function of the degree of prosperity in surrounding countries, the potential which Palestine possessed for becoming a Middle Eastern _entrepot_ was considerable. Despite the fact that transit trade by itself is not a very large source of employment, the revenues earned were capable of financing capital imports as well as aiding in the development of processing industries.

World War II naturally had a very significant impact upon Palestine's international trade. Almost immediately, comprehensive exchange control was instituted and licensing arrangements implemented for both imports and exports. Both the commodity composition of the

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[54]Horowitz and Hinden, p. 134.

[55]Esco Foundation, p. 735.

country's trade and the direction of trade were altered considerably. In addition, the import licensing system had the effect of concentrating trade in the hands of a relatively small group of importers and exporters, this concentration continuing throughout the war and easing only after 1945.

Under the import control system, the goals of which were both the conservation of foreign exchange and a rationalization of the use of shipping, the nominal value of imports rose to levels greatly in excess of even the peak peacetime figures. However, as Table 28 indicates, the volume of imports on the whole was far below 1939 levels. The increase in nominal vlaue was due to highly inflated import prices, while the decline in physical amounts was essentially a function of the rationalization of shipping. As the table indicates, the bulk of the wartime decreases were concentrated in manufactured goods. "It was the shutting off of these manufactured imports that gave Palestinian industry its great opportunity to capture the home market."[56] This disruption of overseas trade precipitated the already discussed manufacturing boom. Table 28 also shows that raw materials imports expanded, a logical concommitant of increased industrialization. Increased oil transit shipments via pipeline from Iraq also occurred as did petroleum processing at the new Haifa refinery. Imports of raw diamonds, previously a negligible amount, rose sharply.

Naturally, this new orientation and the exigencies of the war considerably altered Palestine's traditional sources of supply. Table 29

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[56] Nathan, Creamer, Gass, pp. 331-332.

TABLE 28

INDEXES OF VALUE AND VOLUME OF IMPORTS, 1942-1944

Class	Index of Imports in current prices, 1939=100			Index of volume of imports, 1939=100		
	1942	1943	1944	1942	1943	1944
Food, drink and tobacco	188	266	380	83	71	90
Raw materials and articles mainly unmanufactured	253	224	318	105	83	104
Articles wholly or mainly manufactured	103	70	94	42	20	23
Animals, living, n.e.s.	965	1,088	421	586	372	113
Total Merchandise	142	140	194	60	41	50

Source: Nathan, Gass, and Creamer, p. 331.

TABLE 29

PERCENT DISTRIBUTION OF PALESTINE'S IMPORTS, BY COUNTRY OF ORIGIN, SELECTED YEARS, 1936-44

Country or Region	Percent of total imports 1936-39	1941	1944
United Kingdom	16.0	27.2	8.1
Other Europe west of Rhine	6.2	.0	.0
Subtotal	22.2	27.2	8.1
Germany and Austria	14.6	.0	.0
Other Europe east of Rhine	21.3	.0	.0
Subtotal	35.9	.0	.0
Syria	9.0	3.0	3.9
Egypt	3.7	11.9	5.8
Transjordan	2.7	4.4	4.0
Iraq	1.6	10.1	32.2
Iran	1.3	.6	.5
Turkey	1.2	2.1	6.3
Middle East subtotal	19.5	32.1	52.7
U.S.A.	8.8	8.7	8.6
Australia and New Zealand		9.1	3.5
India		6.1	6.3
Union of South Africa		2.0	5.0
Canada		1.2	5.4
Other British Empire	____	6.2	7.4
British Empire subtotal	5.1	24.6	27.6
All others	8.5	7.4	3.0
TOTAL	100.0	100.0	100.0

Source: Nathan, Gass, and Creamer, p. 333.

shows the national import origins for 1941 and 1944 compared with the 1936-1939 period.

The Middle East, which previously had supplied just under 20 percent of total imports, increased its share to over 50 percent by 1944. European supplies fell drastically, while the nations of the British Empire (excluding the United Kingdom) increased their share to over one-fourth.

Table 30 compares 1943 exports to those of 1939. The drastic reduction in citrus has already been noted. Despite this, total exports did not fall greatly and by 1942 had more than doubled the totals for either 1940 or 1941 (see Table 31). Petroleum, previously only a transit item, was exported in refined form and earned approximately one-third of total export revenues in 1944. Exports of potash and bromine soared over previous levels while miscellaneous manufactures doubled their 1939 levels. The extremely large increase in raw materials and unmanufactured items was a result of the expansion of the diamond cutting and polishing industry. Corresponding to the revolution in supply sources, radical changes also took place in export destinations. The Middle East, which had previously only accounted for 12.1 percent of exports (1936-1939), increased to 65 percent in both 1941 and 1943, then fell to 55.8 percent in 1944. On the other hand, the nations of Europe, previously providing a market for over 80 percent of Palestinian exports, barely accounted for 15 percent in 1944.[57]

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[57]Nathan, Gass, Creamer, pp. 335-336.

TABLE 30

EXPORTS FROM PALESTINE IN 1939 AND 1943

	Value of exports 1939	Estimated value of exports in 1943 expressed in 1939 export prices	Index of estimated volume of exports in 1943 (1939=100)
Food, beverages, and tobacco, including citrus	LP 4,191,674	LP 239,531	6
Food, beverages, and tobacco, excluding citrus	380,709	127,383	33
Raw materials and articles mainly unmanufactured	159,484	694,688	436
Articles wholly or mainly manufactured	765,255	1,522,455	199
Miscellaneous and unclassified	1,356	60	4
Total including citrus	5,117,769	2,456,734	48
Total excluding citrus	1,306,804	2,344,586	179

Source: Nathan, Gass, and Creamer, p. 335.

TABLE 31

PALESTINIAN FOREIGN TRADE, 1939-1944

	1939	1940	1941	1942	1943	1944
	(millions of LP)					
Imports	14.6	12.6	13.3	21.4	27.2	36.2
Exports	5.1	4.1	4.2	8.7	12.8	14.6
Balance	-9.5	-8.5	-9.1	-13.7	-14.4	-21.6

Source: Nathan, Gass, Creamer, pp. 331 and 334.

As Table 31 shows, Palestine's import surplus remained and even increased during the war years. This deficit, however, was again financed by immigrant capital, and even more importantly, by the payments of Allied military forces in the area. This resulted both in continuous import surpluses and the accumulation of balances which could be used for post-war development purposes.

The Economic Structure of Israel

Perhaps the outstanding characteristic of Israel's economy has been its growth, both population-wise and economically. Israel's doors were immediately opened and Jews from all corners of the earth were welcomed to the new state. The immigration rate during the first years of statehood probably constitutes a world record. Israel's population increased (both by natural causes and through immigration) by 17 percent in 1948, by 34 percent in 1949, by 19 percent in 1950 and by 17 percent again in 1951. Table 32 shows that immigration was very heavy during the first four years of statehood, decreased substantially during the 1950's, and has been somewhat erratic in the 1960's, although none of these years has come close to approximating the pre-1951 levels. The rates of increase, however, have been enormous, as a simple comparison with other areas will demonstrate. During the 1950-1960 decade Latin America had the highest rate of population growth in the world--26.4 percent. The world's population growth rate was 16.8 percent.[58] During this same period--a time of relatively low immigration--Israel's

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[58] Lester R. Brown, Man, Land, and Food, Washington: Department of Agriculture, Economic Research Service, 1963, p. 9.

TABLE 32

POPULATION[a] AND JEWISH IMMIGRATION[b]
1948-1966

Period	Immigration	Population at end of period		
		Jews	Non-Jews	Total
1948	101,828[c]	758,702	120,000[d]	879,000[d]
1949	239,576	1,013,871	160,000	1,173,871
1950	170,249	1,202,992	167,101	1,370,094
1951	175,095	1,404,392	173,433	1,577,825
1952	24,369	1,450,217	179,302	1,629,519
1953	11,326	1,483,641	185,776	1,669,417
1954	18,370	1,526,009	191,805	1,717,814
1955	37,478	1,590,519	189,556	1,789,075
1956	56,234	1,667,455	204,935	1,872,390
1957	71,224	1,762,741	213,213	1,975,954
1958	27,082	1,810,148	221,524	2,031,072
1959	23,895	1,858,841	229,344	2,088,685
1960	24,510	1,911,200	239,200	2,150,400
1961	47,638	1,981,700	252,500	2,234,200
1962	61,328	2,068,900	262,900	2,331,800
1963	64,364	2,155,500	274,600	2,430,100
1964	54,716	2,239,000	286,400	2,525,600
1965	30,736	2,299,100	299,300	2,598,400
1966	15,730	2,344,900	312,500	2,657,400

[a]Until 1960: present population: 1961-1966; permanent population to nearest thousand.

[b]Including tourists who became permanent residents.

[c]15 May to 31 December.

[d]Estimated.

Source: Facts About Israel, 1968, p. 60.

population increased by 63 percent. Such a tremendous rate of population increase, particularly via immigration from a heterogeneous variety of nations, has brought tremendous problems, both economic and social, although at the same time the immigrants brought skills, human capital potential, created a rapidly expanding internal market, and allowed increased specialization and division of labor within the Israeli economy itself.

In addition to demographic growth, considerable economic growth has characterized Israel's brief history. With annual rates of increase in real GNP frequently reaching 10 percent, Israel's growth in total and per capita real output ranks as one of the highest in the world. "Between 1948 and 1964, while its population more than trebled, per capita income rose by about 5.5 percent per annum for most of the period."[59] The expansion which began after the state's establishment has continued unabated, with the exception of the mid-1960's when recession prevailed for the first time. Expansion has in general been balanced and productive capacity increased significantly. Indeed, "by every index, tremendous economic development has taken place under difficult military, political, trade, and social conditions, and in the face of a scarcity of raw materials and fuels."[60]

"In many ways Israel continued in its economic expansion to follow the path and pattern set by the Jewish community of Palestine."[61] Just

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[59]Kleiman, p. 226.

[60]Benjamin Akzin and Yehezkel Dror, Israel: High Pressure Planning, Syracuse: Syracuse University Press, 1966, p. 29.

[61]Asfour, p. 342.

as the Jewish community of the Mandate was faced with the necessity of absorbing and integrating thousands of immigrants into a strange land, this continued to be the major preoccupation during the first five years of statehood, with the economic expansion barely keeping pace with the growth of population. The problems and dislocations caused by this massive immigration and the hurried absorption into Israeli life were very great; however, only some highlights need be enumerated here.[62] "The most striking feature of this process of adaptation is the marked change in the occupational structure of immigrants immediately after their arrival in the country."[63] The occupational structure of the immigrants differed significantly from the needs which Israel had. Whereas in the 1919-1923 period, some 30 percent had declared their occupation abroad as agriculture, this figure steadily fell as follows: 1924-1931, 20.6 percent; 1932-1938, 11.6 percent; after 1938, approximately 5 percent.[64] Table 33 shows employment by industry branches in Israel in selected years. In both 1955 and 1960 the percentage of the labor force in agriculture was 17, reflecting Israel's need for a relatively large allocation of resources for this sector in order to feed the population. Prior to 1955 the figure was even larger. It is obvious, then, that an occupational reshuffle of major proportions was necessary. Indeed, this reshuffling is still in process and the failure to fully convert merchants and traders into farmers and engineers is one reason why Israel

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[62] See S. N. Eisenstadt, The Absorption of Immigrants: A Comparative Study Based Mainly on the Jewish Community in Palestine and the State of Israel, London: Routledge and Kegan Paul, Ltd., 1954.

[63] Ofer, p. 121.

[64] Ibid.

TABLE 33

EMPLOYMENT BY BRANCHES, 1955, 1960, AND 1964

	1955		1960		1964	
	Number	%	Number	%	Number	%
Agriculure, Forestry, Fishing	102,200	17.6	121,100	17.3	109,300	12.9
Manufacturing	127,000	21.9	162,000	23.2	215,400	23.2
Construction and Building	54,300	9.3	65,000	9.3	87,000	10.2
Electricity, Water, Sanitary Services	11,900	2.0	15,700	2.2	16,000	1.9
Trade, Banking, Insurance	78,600	13.5	86,300	12.3	107,600	12.7
Transportation	36,000	6.2	43,500	6.2	61,300	7.2
Governmental, Public, and Administrative Services			55,600	7.9	64,300	7.6
	123,000	21.2				
Health, Education, Welfare, etc.			98,600	14.1	123,400	14.1
Personal Services and Amusement	48,100	8.3	52,200	7.5	65,200	7.5
Unknown	(4,300)	--	1,600	--	1,700	--
TOTAL	585,700	100.0	701,800	100.0	851,200	100.0

Source: Akzin and Dror, p. 29.

today possesses a heavy overconcentration of employment in the services branches.[65]

For long periods prior to their absorption, the immigrants were housed in meager camps and failed to contribute to national income, although they shared in it. In some instances, the immigrants were to become permanent nonproducers due to their physical and/or mental condition upon arrival from lands of persecution and torment. In addition to economic transformations, social and cultural integration had to be achieved, problems which became even more difficult as the character of the immigrants changed from relatively well-educated, modern Europeans to the darker-skinned, relatively backward African and Asian Jews. Although immigrants from the West declined very greatly in numbers after 1951, those from the East continued to pour in, the over-all result being that between 1948-1964 almost 55 percent of the total number of immigrants were nonwesterners.[66]

In general, nations which experience the rapid economic progress Israel has enjoyed are nations which have industrialized, that is, the manufacturing sector has grown, most frequently at the expense of agriculture. Table 33, however, indicates that only 23.2 percent of the population was engaged in manufacturing in 1964, a figure barely higher than ten years earlier. Even more surprising, the 1964 proportion was less than the boom years of the war when twenty years earlier almost 30

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[65] Ibid., pp. 120-126.

[66] Facts about Israel, 1968, p. 60.

percent were engaged in manufacturing.[67] The reasons for this anomaly are several, one of which happens to be the Arab boycott itself. Another is the large import surplus which made the manufactures of other nations readily available, and another is the relative neglect of the manufacturing sector by the government, which financed the bulk of the nation's capital formation. In addition, the waves of immigration resulted in heavy demands upon housing and the construction industries became one of the centers of economic activities. Although under ordinary circumstances the slow growth of manufacturing is likely to hamper growth, Israel's large import surplus, financed by heavy capital inflows--another trait in common with Palestine--provided for Israeli industrial needs, thereby alleviating much pressure for investment in manufacturing. Interestingly, while in most countries manufacturing is a relatively capital-intensive sector, so that manufacturing's share of the total national product is usually greater than its share ot total employment, the two are more or less equal in Israel. This, too, is a result of the government's deliberate policy of favoring other sectors when dispensing investment funds.

During the mid-1950's Israel's economic policies shifted somewhat as the limits to expansion in agriculture became recognized. Emphasis moved toward manufacturing.

> Between 1958 and 1962 the stock of capital per person engaged in manufacturing grew annually by about 5 to 6 percent. The resulting expansion is reflected in the index of industrial production, which

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[67]Kleiman, p. 231.

rose from 100 in 1958 to 129 in 1960 and to 169 in 1963. This rate of growth exceeded that of the economy as a whole.[68] Consequently, since 1958 the share of manufacturing in the national dividend has been rising. By 1964, despite some minor setbacks in this sector's development, some 25.3 percent of the labor force was employed in manufacturing.[69]

The agricultural sector has two major aspects. As in the Mandate period, the citraculture is extremely important, with production essentially for export. Mixed farming, another extension of the Mandate, is the second aspect, with production concentrating on dairy farming, poultry breeding, fruit and vegetable growing and some cereals production. Both citrus exports and the output of mixed farming--off-season fruits and vegetables have been geared to the European market; however, since the Common Market was established, these Israeli exports have been having a more difficult time penetrating their traditional market destinations.

As has been suggested, emphasis on agriculture has been great and the industry's productivity is very high due to the heavy capital investments. Since there is a scarcity of good land, farming is capital- and labor-intensive, and progress has been remarkable. "In 1949 locally produced foodstuffs met up to 50 percent of the needs of a population of approximately 1 million; in 1964 it met 85 percent of the needs of a population of 2 1/2 million on a much higher standard of living."[70] However, in its attempt to expand agriculture, almost to

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[68] Ibid., p. 241.

[69] Ibid., p. 244.

[70] Horowitz, pp. 26-27.

the point of self-sufficiency, the government patently over-invested in certain areas, as a result of which there appeared surpluses in specific commodities by the end of the 1950's. Recognizing the situation, the government deemphasized its efforts in agriculture; consequently, since 1961 there has been an absolute decline in the number of persons employed in this sector. This release from agrarian pursuits has been accompanied by the previously discussed transfers into manufacturing. Hence, Israel's structural changes have since 1961 shown a greater similarity to the classical pattern of economic development.

"Perhaps the key factor in the industrialization of Israel has been the opening of new factories depending directly on rising demand,"[71] this demand essentially arising out of a growth of the home market. The experience and skills in industry of large segments of the immigrant groups meant that Israel possessed an important ingredient for industrial development. Rapid growth in the domestic economy, both population-wise and income-wise, produced a rising demand for manufactured goods. Tariff and administrative protection, coupled with the desire to conserve foreign exchange meant that most of this domestic demand was likely to be satisfied via domestic production. Unfortunately, a lack of raw materials and a nonavailability of cheap labor were retarding factors. In addition, certain governmental social policies had adverse incentives effects upon private venture capital. Nevertheless, the impetus of the abovementioned factors coupled with governmental prodding has stimulated a long-awaited industrial expansion which promises to continue in the future.

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[71]Ibid., p. 30.

Horowitz enumerates four salient characteristics of Israeli industrialization which merit note.[72]

1. Manufacturing concentrates on consumer goods, perhaps 65 percent on such items, and only 35 percent on producer goods.

2. Overwhelming dependence upon the home market which consumes about 77 percent of total output.

3. Heavy reliance upon imported raw materials.

4. Vital importance of the capital influx as a stimulus to industrial investment.

Industrial development in Israel has taken three major directions. Processing and manufacturing which utilizes locally available raw materials is, of course, one aspect. Hence, industries have emerged utilizing citrus, the Dead Sea minerals, and cotton as their basic raw materials. A second direction is that of production based upon particular skills, so that the value of the raw material inputs is but a fraction of the market value of the output. The Israeli labor force is highly literate and possesses a large proportion of specially skilled workers, thereby giving Israel a comparative advantage in such areas. Hence, chemicals and pharmaceuticals, special order machines, precision instruments, and fashion goods have been areas of importance for Israeli industrial development. Finally, manufacturing development has also proceeded along the lines of imported raw materials of low bulk and high value, such as furs and diamonds. In this area transport costs are only a small fraction of the total value of output. Diamond cutting and polishing is a major provider of foreign exchange.

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[72] _Ibid._, pp. 30-31.

Table 34 presents a summary of development in selected branches of the Israeli economy for the years 1950, 1956, and 1963. Note should be made of the many gaps in domestic production, all of which had to be imported (coupled with depressed domestic consumption) in 1950. However, by 1963 most of these areas had experienced major advances in the way of import substitution.

Throughout most of its history Israel's economy has been plagued with a rather continuous inflation. These rising price levels have been the result of a combination of factors, the chief of which have been major foreign capital inflows, very heavy government spending, egalitarian wage and government services policies, excessive isolation from foreign competition and a lack of sufficient genuine efforts to curtail the inflation. This inflation has had adverse effects upon the competitiveness of Israeli exports, warped patterns of investment and stimulated excessive consumption, and generally distorted Israel's price structure so that allocations of resources on the basis of comparative money costs actually represent misallocations on the basis of real costs. The inflation problem has been very serious, but not really faced firmly until the mid-1960's at which time the government's disinflationary policies resulted in an "over-kill," i.e., the tightening was too great and precipitated a recession, the first serious slowdown of economic activities in the state's brief history.

Looking at Israel from the international prospective, the similarity to Palestine is again striking. The balance of trade has continuously been adverse, financed by heavy capital inflows from external sources. Table 35 shows Israel's balance of trade for the years 1949-1966.

TABLE 34

DEVELOPMENT OF SELECTED BRANCHES OF ISRAELI ECONOMY, 1950, 1956, AND 1963

	1950			1956			1963		
	Imported	Exported	Produced	Imported	Exported	Produced	Imported	Exported	Produced
				(Quantities in Proper Units)					
Electricity (in mill. kwt)	---	---	500	---	---	1,410	---	---	3,153
Crude Oil (in tons)	196,063	---	---	n.p.[a]	---	24,648	n.p.	---	174,000
Cement (in tons)	81,000	---	380,000	6,000	193,731	612,837	12,000	116,246	1,022,000
Copper (in tons)	2,200	---	---	600	---	---	7,700	---	7,755
Vehicles (in number)	4,200	---	---	1,800	670	2,500	14,116	207	4,598
Tires (in tons)	49	---	---	157	2,550	4,638	150	1,180	11,850
Plastics and plastic products (in tons)	300	---	---	200	---	1,700	n.p.	---	11,650
Phosphates (in tons)	5,067	---	---	---	30,000	114,025	---	156,000	275,000
Dyes, colors, inks, etc. (in tons)	810	---	---	?	262	?	4,627	1,144	9,068
Textile materials (in tons)	5,500	---	---	9,000	---	7,516	20,476	15,436	22,672
Textile products (in thousand meters, without diverse clothes)	3,700	---	---	3,900	?	6,533	5,184	3,579	12,118
Diamonds (in carats, imported-raw exported-polished)	454,000	119,514	---	683,000	263,707	---	3,500,000	1,152,787	---
Paper and paper products (in tons)	15,000	---	---	17,500	3	16,696	47,700	12,577	40,937
Salt (in tons)	---	---	7,246	---	---	25,972	---	---	51,614
Sugar (in tons)	32,500	---	---	47,719	---	1,927	72,000	---	30,946
Cigarettes and tobacco (in tons)	804	---	1,568	682	3	2,203	1,627	---	2,949
Fish and fish products (in tons)	12,000	---	7,300	11,500	---	11,400	8,900	---	16,450
Grapes (in tons)	---	---	13,350	---	---	43,500	---	---	59,200
Wines and liquors (in thousand liters)	95	---	?	22	434	11,407	231	1,900	35,294
Citrus fruit (in tons)	---	161,000	352,650	---	291,845	439,000	---	506,926	736,400
Deciduous fruits (in tons)	---	---	3,500	54	---	16,600	---	30	67,950
Fruit and vegetable juices and preserves (in tons)	250	---	25,000	20	10,500	48,000	500	46,441	53,000
Vegetables (in tons)	8,000	---	142,000	622	26	242,000	8,600	3,400	296,900
Olives (in tons)	---	---	2,700	---	145	700	---	---	13,000
Milk (in klt. import in tons of powdered milk)	13,400	---	118,000	10,044	---	224,800	6,200	---	358,500
Eggs (in thousands)	2,928	---	391,500	---	17,000	630,000	---	140,000	1,113,300
Livestock for consumption (import-in number product-in tons)	6,200	---	9,950	118	12	37,900	4,000	---	110,000
Potatoes (in tons)	20,848	---	37,000	2,615	20	93,000	---	11,700	108,900
Wheat (in tons)	159,858	---	13,500	331,937	3,080	83,000	281,768	---	54,700
Rye (in tons)	28,987	---	27,500	24,500	---	74,200	89,400	---	36,300
Rice (in tons)	4,020	---	---	12,204	---	250	15,300	---	---
Timber (in cmt.)	213,000	---	---	212,000	2,527	21,276	260,000	38,000	59,778

[a]n.p. = not published.

Source: Akzin and Dror, pp. 30-31.

TABLE 35

ISRAELI TRADE BALANCES
1949-1966

Year	Net Imports	Net Exports	Deficits
	(in millions of dollars)		
1949	251.9	28.5	223.4
1950	300.3	35.1	265.2
1951	381.7	44.8	336.9
1952	322.2	43.5	278.7
1953	279.9	57.6	222.3
1954	287.2	85.3	201.9
1955	334.5	89.1	245.4
1956	375.6	106.5	269.1
1957	432.8	140.1	292.7
1958	420.9	139.1	281.8
1959	427.3	176.4	251.2
1960	495.6	211.3	284.3
1961	583.9	239.1	344.8
1962	626.2	271.4	354.8
1963	662.0	338.3	323.7
1964	813.5	351.8	461.7
1965	811.0	406.1	404.9
1966	811.5	476.8	334.7

Source: _Facts About Israel, 1968_, p. 107.

Although the ratio of exports as a percentage of imports has steadily risen, so that by 1966 exports amounted to almost 60 percent of imports (as opposed to under 12 percent prior to 1952), the trade gap has not narrowed, and indeed has increased rather considerably during the 1960's. While it is true that both on a per capita basis and as a percentage of national income, the deficit has evidenced a significant decline, the gap between exports and imports is a major concern to Israeli policy makers.[73]

Israel's dependence upon imports is, of course, natural in view of its small size and limited resource base. This dependence is well documented statistically by viewing the import component of production. The total import component of private consumption expenditures for the years 1962-1964 exceeded 20 percent. More importantly, this figure averaged more than 32 percent for gross investment and no less than 43 percent of exports.[74] Imports, then, have been a major factor in producing Israel's relatively high and rising levels of consumption as well as the outstanding growth rate. Table 36 provides a breakdown of imports according to economic category. The table shows that raw materials imports are of overwhelming importance, followed by investment goods. Under the latter category, industrial equipment is the foremost import. It is evident that capital and raw materials imports have provided a major, probably the major, stimulus for Israel's rapid economic progress.

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[73] In the writings of David Horowitz, Governor of the Bank of Israel, the need to rectify the trade imbalance is a continuing theme.

[74] Horowitz, p. 89.

TABLE 36

GROSS IMPORTS BY ECONOMIC DESTINATION
1959-1966

	1959	1962	1964	1965	1966
(in millions of dollars)					
Consumer Goods					
(for direct consumption)					
Food	17.1	18.1	36.5	35.2	42.7
Other consumer goods	12.2	13.1	18.5	21.5	22.9
Durable goods	11.4	13.2	27.5	26.2	22.6
Total Consumer Goods	40.7	44.4	82.5	82.9	88.2
Production Inputs					
(raw materials)					
Inputs in agriculture	29.4	29.2	29.7	34.1	48.2
Inputs in industry	207.1	323.5	426.0	422.8	443.4
Building materials	17.7	17.5	16.8	17.4	10.0
Fuel and lubricants	34.7	40.1	46.6	53.2	58.3
Spare parts and tools	25.4	36.8	38.5	43.2	44.7
Total Production Goods	314.3	447.1	557.6	570.8	604.6
Investment Goods					
Agricultural equipment	6.3	8.0	8.5	5.2	5.5
Industrial equipment	42.3	72.7	74.1	88.7	64.8
Ships and aircraft	14.2	21.7	51.9	33.5	18.5
Transport & communications	6.3	26.8	38.0	31.9	28.6
Other branches	5.9	13.8	16.9	19.4	21.6
Total Investment Goods	75.0	143.0	197.4	178.5	139.0
TOTAL IMPORTS	430.0	634.5	837.5	832.2	831.8

Source: Facts About Israel, 1968, p. 105.

While such a dependence upon imports is not uncommon for small nations, the Israeli position is somewhat precarious inasmuch as export earnings have never succeeded in covering the import volumes. One expert has suggested that "the briefest way to describe Israel's economy is to say that it is dependent on unrequited imports."[75] The huge import surpluses have been possible due to correspondingly huge foreign capital inflows which Israel has enjoyed in every year of statehood. Although the composition of the capital inflows has changed over the years, the general tendency has been for about two-thirds of the total to be in the form of unilateral receipts. Table 37 itemizes capital imports according to their sources for the 1959-1964 period. In the very early years of statehood direct United States government aid was a much larger relative amount, constituting about 25 percent of all capital imports. Prior to June 30, 1953 (the date on which the German reparations agreement began to be implemented) neither reparations or personal restitutions from Germany were a part of the capital inflow. After that date, they advanced to major significance. Interestingly, as United States government aid began to fall off, German reparations--amounting to a total of more than $800 million--began to assume major proportions. As they too began to dissipate, personal restitutions assumed increasing importance. Hence the fortunate timing of capital inflows has provided a remarkable continuity in flows. In addition, net

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[75]Kervin Winch, "National Policy and Economic Decisions in Israel," Social and Economic Studies, June, 1962, p. 174.

TABLE 37

ISRAEL'S CAPITAL IMPORTS BY SOURCES, 1959-1964

	1959	1960	1961	1962	1963	1964
(in millions of dollars)						
A. Private transfers						
Personal transfers	30	37	45	68	89	96
Personal restitutions from West Germany	71	98	111	134	139	134
Foreign investments	13	43	52	82	135	133
Total	114	178	208	284	363	363
B. Public sector transfers						
German reparations	66	76	88	47	28	17
U.S. government aid	10	14	10	8	6	8
U.S. government loans	45	47	42	45	50	32
Transfer by institutions	74	87	92	74	85	80
Independence and development loans	35	28	32	33	23	24
Other long- and medium-term loans	15	2	21	52	-31	41
Total	245	254	285	259	161	202
Total capital Import (A&B)	359	432	493	543	524	565
In percentages						
Private transfers	32	41	40	53	69	64
Public sector transfers	68	59	60	47	31	36
TOTAL	100	100	100	100	100	100

Source: Akzin and Dror, p. 33.

private investment has grown over the year, while Independence and Development bonds have provided a steady net inflow.

The problem facing the Israeli economy with respect to these capital inflows is a dual one. Not only can these inflows be expected to decrease in the near future, but an adverse movement in the composition of these funds can also be expected. Early in 1964 the United States Congress chose to drop Israel's name from the list of "underdeveloped" countries due to that nation's rapid growth and American aid has since been reduced. German reparations have almost halted and personal restitutions will soon be coming to an end. All these factors, then, suggest that Israel's import volumes financed by capital inflows will either have to be reduced or financed via greatly increased export earnings.

The only really constant thread running through the capital inflows has been the rather steady percentage of unilateral transfers which have generally accounted for at least two-thirds of the total inflow. Since payments from German sources are rapidly dwindling, a major source of unilateral transfers will soon almost wholly cease. Although many personal and institutional unilateral transfers will continue--indeed, in times of military crisis, they have increased--these sources cannot be expected to change greatly, except perhaps to decline somewhat. External financing, then, if continued will increasingly result in debt issue and the consequent need to service this debt. Indeed, Israel's ratio of public debt service to exports is already one

of the highest in the developing world, if not the highest.[76] Hence, in addition to reduced capital inflows, the problem of debt servicing will require increased foreign exchange earnings for which no imports can be obtained.

Without external financing of such magnitudes, either consumption could not have risen to the relatively high levels which it has, or the vast amounts of investment could not have taken place. Given the expected diminished flows of the future, for the relatively high rates of investment to be maintained, rates of consumption must fall. Rapidly rising levels of consumption, however, have become characteristic of Israel's economy and are politically very difficult to suppress. Hence, the only way Israel can maintain its past rates of growth is to increase exports very substantially relative to imports. It should, perhaps, also be noted that on the invisibles account Israel has also had consistent deficits so that the current account deficits have generally exceeded the trade imbalance by $100-150 million.

Table 36, page 211, has already provided insight as to the commodity composition of Israeli imports. A listing of the major import items includes the following: petroleum, raw diamonds, foods and beverages, machinery, iron and steel, ships and aircraft, automotive vehicles, and a host of raw materials. As for exports, polished diamonds head the list, followed by citrus fruit and other citrus products, tires, plywood and panels, cotton yarn, vegetable oils, copper, cement, synthetic yarn, and wool products.

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[76] Dragoslav Avramovic and Associates, Economic Growth and External Debt, Baltimore: Johns Hopkins Press, 1964, p. 44.

Table 38 shows the national origins of the bulk of Israel's imports as well as the major export destinations. The United States has generally been the largest single importer, although the European continent has been by far the more important market, followed by the Western Hemisphere, Asia, and lastly, Africa. As for import origins, Europe again ranks clearly in first place, with the Western hemisphere again second, and Asia and Africa roughly equivalent to each other in third place. Trade with the rest of the Middle East has been restricted by the boycott to two nations only, Turkey and Cyprus. Although the belief is sometimes expressed that the growing markets of Asia and Africa hold great promise for Israeli exports, these markets at present are only marginal and can be expected to remain that way for some time to come. As Horowitz has suggested,

> The greatest possibilities of expanding Israel's export are to be found . . . in the developed countries, which at present purchase the bulk--about 85 percent--of its products, as the agricultural produce of Israel's subtropical climate will find no market where climatic and natural conditions are similar, and must be marketed where the climate is different or colder, especially in Europe, which purchases most of Israel's fruits, principally citrus and other fruits and vegetables, when they are off season in Europe.
>
> Where industrial exports are concerned, Israel . . . industry can . . . expect to develop mainly by an expansion of processing combining imported raw materials with native know-how, special skills, labour and capital to turn out finished export products . . . . Markets for their products are to be found not in undeveloped countries, where national per capita income is not high, but in developed ones . . . .[77]

In terms of trade policy, Israel for years maintained an extremely complex system of multiple exchange rates, one which was inimical on

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[77]Horowitz, pp. 111-113.

TABLE 38

IMPORTS AND EXPORTS BY MAIN COUNTRIES OF PURCHASE AND DESTINATION

	Imports			Exports		
	1964	1965	1966	1964	1965	1966
	(in millions of dollars)					
Europe	500.8	472.3	450.8	232.7	264.7	312.8
United Kingdom	158.8	164.1	157.8	46.0	50.1	62.2
German Federal Republic	65.7	75.1	68.7	33.3	40.0	47.3
Netherlands	35.1	31.9	37.8	30.2	36.6	37.1
Switzerland	25.3	25.3	27.8	25.8	26.3	28.0
France	67.9	35.0	32.8	11.8	16.0	18.8
Belgium	38.2	27.5	28.9	22.3	23.2	32.2
Italy	34.5	32.0	29.8	6.6	5.8	8.0
Finland	9.6	9.2	7.6	4.3	4.6	4.9
Yugoslavia	8.7	6.4	8.0	8.8	8.9	11.2
Sweden	12.1	11.4	11.4	8.1	9.7	8.0
Asia	18.6	30.0	30.8	48.5	56.4	65.8
Japan	7.1	18.2	20.7	14.5	16.3	18.7
Hong-Kong	0.2	0.4	0.7	12.7	17.1	20.9
Turkey	6.6	6.4	5.1	5.1	7.3	8.2
Africa	27.4	27.3	26.8	12.7	21.6	19.5
America	228.6	232.6	248.7	66.4	74.6	90.2
United States	208.0	211.6	220.0	54.7	62.4	77.5
Canada	10.2	5.6	6.9	5.7	6.6	6.7

Source: Facts About Israel, 1968, p. 106.

balance to the development of the foreign trade sector.[78] In addition, a system of tariff and administration protection--and confusion--prevailed. Also, a substantial volume of trade was carried out under bilateral agreements, thus inhibiting the integration of Israel's economy and price structure with that of the rest of the world. In short, through a multitude of controls and arrangements the Israeli economy has been largely shielded from external competitive forces. Domestic inflation has, in addition, lessened the need for an export orientation due to rapidly rising incomes in the home market. The pressures for tighter money and freer trade, in an effort to stimulate the export sector have been building for some time and in the early 1960's the beginnings of trade liberalization could be seen. Movements in this direction, including the termination of many bilateral trade agreements, have continued on a slow, but nevertheless steady basis. As Horowitz suggests, "Expansion of export is, therefore, the present concern of Israel's economy, for it alone can solve the major problem of the adverse balance of trade."[79]

Political Pre-Conditions to the Boycott

As has already been indicated, the divergent political aspirations of the Jewish settlers and Palestinian Arabs, their competition for Palestine's limited resources, and their socio-economic differentiation

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[78]See Alex Rubner, The Economy of Israel, New York: Frederick Praeger, 1960.

[79]Horowitz, p. 113.

combined to create serious tensions within the country. The groups were relatively isolated from each other, particularly in the non-urban areas. This separation had led to a minimizing of economic intercourse and mutual de facto boycotts of a sporadic nature. Nevertheless, the volume of trade between Arabs and Jews did bring substantial benefits to each group and no doubt would have been much greater and even more beneficial had the antagonisms between them not existed.

In 1944 the Arab League came into being. The Protocol of Alexandria, creating the League, was signed by Egypt, Trans-Jordan, Syria, Lebanon, Saudi Arabia, Iran, Yemen, and delegates representing the Palestinian Arabs. At that time the League had four objectives with regard to the Palestine situation:

1. To stop the mass immigration of Jews into Palestine;
2. To economically develop the country;
3. To frustrate further Jewish economic development in Palestine by means of a boycott against Zionist produce;
4. To obtain political independence for Palestine (still under British rule) and admit it as a full-fledged member of the Arab League.

An official boycott, then, was introduced in 1944. It was not, however, until early in 1946 that the boycott against Zionist produce was actually implemented on an official basis. The League established a Permanent Boycott Committee and declared that: "Products of Palestinian Jews are to be considered undesirable in Arab countries. They should be prohibited and refused as long as their production in Palestine might lead to the realization of Zionist political aims" (Resolution No.

No. 16).[80] In June of that year they adopted Resolution No. 72, in which the League urged each member state to pass legislation to make the selling of Arab lands to Zionists a crime. More steps were taken to strengthen the boycott, one of which included the establishment of boycott offices in each Arab state. Zionist services, such as banks, insurance, and transport were also to be boycotted. The attempt was being made to economically isolate and strangle the Jewish colonies in Palestine. Resolution No. 68 urged that "Propaganda should be carried on to make the boycott of Zionist goods a creed of the Arab nations so that each Arab might preach it enthusiastically to all."[81]

In 1948 when Britain gave up the Mandate and open fighting between Jews and Arabs broke out, the League sent an Arab Liberation army into the battle. Organized military action stopped in 1949, but only an armistice--not a treaty of peace--was signed.

With the cessation of armed hostilities the boycott activities took on a new importance. They were supposed to accomplish what the military campaign had failed to do. A general boycott office had already been established in Damascus, and national offices now function in all the Arab states. The boycott mechanism was extended and more fully developed. "The interpretation given by the League is that the boycott will bring about the eventual economic collapse of the state of Israel and will reveal that it is not economically viable in the midst of a

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[80] B. Y. Boutros-Ghali, "The Arab League: Ten Years of Struggle," International Conciliation, May, 1954, p. 408.

[81] Ibid., p. 409.

hostile world."[82] The League's economic sanctions have traditionally been two-pronged, the primary and secondary boycotts of Israel and the denial of access to the Suez Canal by Israeli shipping. Each aspect of the sanctions will be examined.

Boycott Implementation and Maintenance

The Arab states (see Figure 2) refuse to have any trade relations whatsoever with Israel, neither importing Israeli goods nor exporting to that nation. All transport facilities through Arab lands are denied to any goods coming from or destined for Israel. In addition, cargoes consigned to an Israeli destination on non-Israeli ships are refused transit and port privileges in Arab lands if they appear on a contraband list which is quite broad in its coverage of items essential for Israel's economic well-being.

The boycott, however, does not end simply with total nonintercourse. The attempt is also made to isolate Israel economically from the rest of the world via diplomatic and economic pressure upon nations and upon individual businesses. Diplomatic representations have been made by the League to other governments in an effort to get those nations to also cease their trade relations with Israel. Promises of economic advantage and/or loss and special considerations have been the tools most generally used in the attempt to alienate Israel from non-Arab countries. In the new nations of Africa in particular there has been a

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[81] *Ibid*., p. 409.

[82] *Ibid*., p. 421.

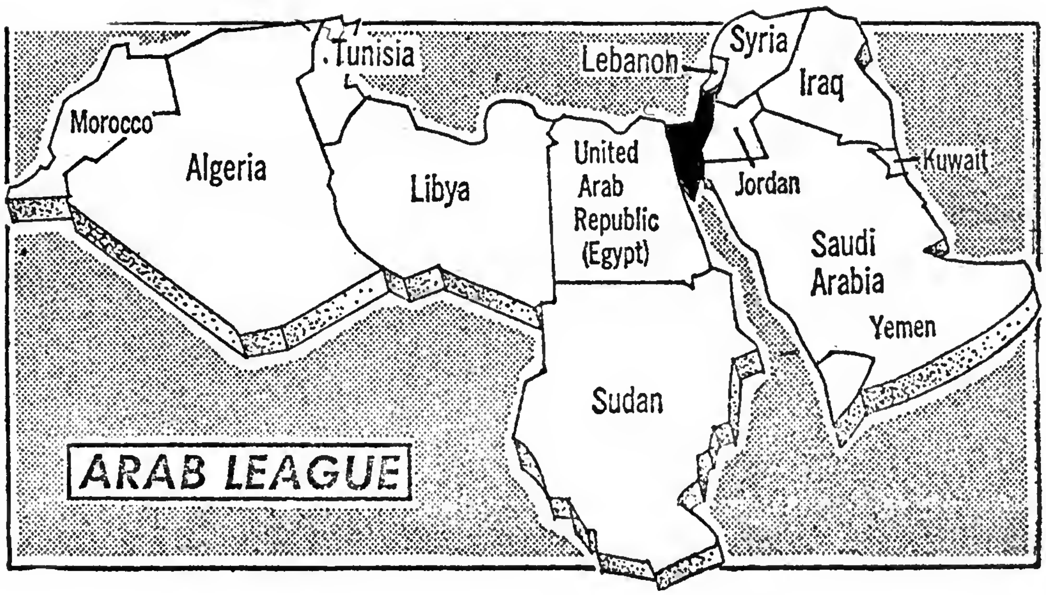

Figure 2. Boycotting States and Israel.

Note: Shaded area represents Israel and Occupied areas.

Source: Taken from the Washington, Pennsylvania, Observer Reporter, January 17, 1969, p. 1.

rather keen rivalry between Israel and the Arab states (principally Egypt) and a major effort is being made to eliminate Israel's economic activities in both Africa and Asia.[83] "Wherever there is a Moslem majority in an African state, the Arabs have demanded that Israel should be boycotted in the name of Muslim solidarity. They have succeeded in the Somali Republic,"[84] and in certain other areas in which the influence of Islam is great. When the Arabs banned the import of Ceylon's tea due to that nation's prospective ties with Israel, the Ceylon prime minister announced the withdrawal of her nations' envoy to Israel, explaining that the move was taken with a view to strengthening Ceylon's relations with the Arab countries. Shortly after Iran recognized Israel diplomatically, the League initiated a boycott against Iranian goods. Many similar such instances could be cited. Without question, the boycott has limited Israel's trade with Asia and Africa somewhat, although just how much is a moot question. In fact, despite the closing of several markets, Israel appears to be ahead in this economic and propaganda war, although Israel's trade has still been constrained. Nevertheless, whatever the boycott's success in these geographic areas, the total impact is probably very marginal inasmuch as these states do not provide very substantial markets due to their lack of purchasing power and their general demand for goods for which Israel does not have a comparative advantage. In addition,

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[83] See Joseph Churba, U.A.R.-Israel Rivalry over Aid and Trade in Sub-Saharan Africa: 1957-1963, Columbia University dissertation, 1965.

[84] Jacques Baulin, The Arab Role in Africa, Baltimore: Penguin Books, 1962, p. 106.

although several important Israeli factories do use African-produced raw materials, here too the total absolute volume is rather small.

Of much greater significance are the measure taken against individual businesses for specific commercial ties with Israel, for Zionist leanings, or for trade with blacklisted firms. The products of firms contravening League regulations are boycotted in Arab lands, the boycott being implemented by the blacklisting of individual businesses and the subsequent prohibition of the sale of their goods in Arab states. The list of offenses which might result in blacklisting has increased considerably over the years. In the beginning, pressure was placed upon foreign companies which had operating branches both in Israel and in Arab lands. In the spring of 1953 the distinction between companies with branches solely in Israel and those with branches both in Israel and in an Arab country was dropped. Resolution number 558 of the Arab League ordered the embargo to apply to the importation of products of all foreign enterprises having branch factories in Israel, even if these countries had no branches in Arab states. Not only have individual businesses lost Arab customers, but non-Arab customers may also be involved. As an example, a blacklisted firm which has no trade with Arab peoples, i.e., deals in the Middle East solely with Israel, may lose non-Arab customers due to prohibitions on trade with blacklisted firms. If this business has customers who have substantial Arab dealings, Arab pressure upon the customers may result in a loss of sales for the blacklisted firm. In this fashion, firms without Arab clients who seemingly are beyond the scope of League pressure may nevertheless be affected. As a case in point, one concern surveyed was blacklisted by

the Arab states for business dealings with Israel; however, this organization had no Arab customers nor sources of supply and hence stood to lose little from the blacklisting. Nevertheless, one of its customers--its major customer, in fact--did have considerable Arab dealings and was subject to substantial losses if it did not cease its ties with the blacklisted firm (or get the blacklisted firm to terminate its Israeli trade). When the blacklisted firm refused to comply, it found itself without its major customer, losing 40-50 percent of its normal business. Via this secondary boycott, then, the scope of Arab economic sanctions is greatly increased.

Below is an enumeration of the major offenses for which blacklisting may result.

1. Having main or branch factories in Israel.
2. Having assembly plants in Israel, or agents which assemble products in Israel.
3. Having general agencies or main offices in Israel.
4. Owning shares in Israeli businesses.
5. Investing in or doing business with an already blacklisted company.
6. Licensing patents, trademarks or copyrights to Israeli firms.
7. Rendering consultative and/or technical services to Israeli factories.
8. Having membership--either by the firm or its directors--in joint foreign-Israel chambers of commerce.
9. Acting as agents for Israeli companies or principal importers of Israeli products, outside Israel.

10. Assisting Israel's economic growth for war potential, either directly or indirectly.
11. Assemblying Israeli products, anywhere in the world, or manufacturing goods which contain Israeli raw materials.
12. Taking part in or aiding the search for natural resources in Israel.
13. Failing to answer the questionnaire sent by the Boycott Offices.
14. Facilitating any financial transactions related to Israel--bankings, insurance grants, loans, etc.
15. Representing, selling, or furthering in any way the sale of Israeli products, Israel Bonds, Zionist activities, etc.

The comprehensiveness of this listing is impressive--in short, it allows for the blacklisting of almost any and all firms or individuals which have even the most remote and minor relationships with Israel--as well as those with links vital for Israel's economic well-being.

In addition, in March, 1953, shipping and airline companies which served any League nations were requested not to include any Israeli port or airfield in their schedules. This request was later made mandatory and at present no plane or vessel which has docked or stopped at an Israeli port is permitted entrance to Arab lands. If, by some chance, a plane or ship carrying Israeli merchandise or mail puts into an Arab port, such articles are confiscated.

Three documents are essentially involved in the boycott operations. The first is an affidavit which is to be submitted by firms beginning operations in Arab states. This document affirms that the business is

not practicing any boycottable offenses, such as those just listed. The second requirement is a negative certificate of origin, verifying that none of the inputs of the item imported into Arab lands originated in Israel. The final document is a letter generally sent to the firm which is suspected of boycott violations, or to its local distributor. This letter is reproduced in Appendix B. Essentially seeking a confirmation or a rejection of its suspicions, the letter requests that offending policies be discontinued or the recipient will face the likelihood of losing his Arab customers. A firm which denies the allegations must muster sufficient evidence to prove its innocence. Finally, a failure to answer the letter within approximately six weeks results in automatic blacklisting, whether or not boycott regulations concerning Israel have or have not actually been contravened. Although it has been suggested that a failure "to answer the original letter makes it more difficult to get off the blacklist later,"[85] removal from the blacklist is possible if sufficient explanations as to the reasons for nonresponse are later provided.

Removal from the blacklist (when listed due to more substantive offenses) requires first of all the cessation of the offending activity, and secondly, acceptance of the new situation by the Boycott Office. This latter requirement is often rather complex, although facilities are in existence for the speeding up of the delisting process. "A firm wishing to make amends contacts the central boycott office in Damascus directly,

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[85] "The Arab Boycott of Israel," Business International, January 31, 1964, p. 5.

or through any of the country-level offices,"[86] or the American-Arab Association of Commerce and Industry. The boycott offices must be convinced that the offending practices have been fully terminated or that a simple error had been made in the original blacklisting. Done through the mails, this process can be quite lengthy and often unsuccessful, or perhaps quick and simple. In 1963 to get delisted one company spent

> An estimated $100,000 in travel and manpower (including the personal intercession of a vice president with boycott officials in Damascus, reams of notarized documentation, the services of a Damascas lawyer, a "do-it-yourself-kit" from the State Department, and a boost from the American-Arabian Association).[87]

Another American company--Schick--tried to get delisted for two years until it was finally successful. Their efforts for delisting were rather considerable, including a trip to Damascus by a leading Schick executive.[88] Given enough time and effort, then, as well as sufficient proof, delisting is quite possible, although a few firms, such as Britain's Imperial Chemical Industries, have been blacklisted permanently. Some leading American businesses which were blacklisted and subsequently removed include Philco, Schering, Firestone, and a host of others. At a meeting in January, 1964, 45 firms were removed from their blacklisted status. Delisting is often given much publicity, particularly in countries with close trade and/or cultural ties to the Arab world. The purpose is probably to emphasize the importance of the blacklisting and the need to be removed so as to impress potential candidate businesses

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[86] Ibid.

[87] Ibid.

[88] See "The Arab Boycott: How Two Firms Won Reprieve," Business International, April 12, 1968, p. 115, for further descriptions of actual listings.

with the perils of boycott contravention. It has, it might be added, also been alleged that announcements have been made removing firms from the blacklist which had never really been blacklisted or were mistakenly blacklisted, simply for the purpose of publicity purporting to show how anxious firms are to be delisted. This is probably likely as such practices can only help, if they have any effects at all, the goals of the boycott.

The exact total number of firms which have been boycotted is not known, while the total on any current list tends to vary due to continuous additions and subtractions. "Firms on the boycott list totaled 605 as of December 1, 1963, including 167 US firms"[89] of which 53 had been on for three years or more. "During 1965 more than 300 firms from 33 different countries were added to the blacklist."[90] Hence, firms of every major trading nation have been blacklisted. In addition, all subsidiaries and licensees are also blacklisted. Thus, when Kaiser Industries was boycotted in 1965, 26 subsidiaries were specified as well. When Monsanto Chemical Company was listed, 40 related companies and subdivisions throughout the world were itemized. Some blacklisted firms have changed their names in order to escape the boycott; however, several have been detected and the new company name as well as the old are then on the list. Since 1965 the United States Department of Commerce has requested notification of any and all requests to American

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[89]"The Arab Boycott of Israel," Business International, January 24, 1964, p. 1.

[90]"The Persistent Arab Boycott," Business International, March 4, 1966, p. 72.

exporters concerning restrictive trade practices, particularly pertaining to boycotts. A summary of the notifications indicates the scope of the boycott's activities.

> In 1967 U.S. firms reported 7,929 transactions in which their co-operation in restrictive trade practices was requested . . . . Nearly all of these involved restrictions by Arab countries against Israel . . . . The principal types of restrictions reported were requests for certification that: the goods were not of Israeli origin (66%); the carrying vessel was not blacklisted (5%); and West German reparations to Israel were not involved (1%). Also included were some 19 questionnaires concerning the exporter's subsidiaries and financial interests in Israel.
>
> From October 7, 1965, when the reporting requirement became effective, to the end of 1967, the Department had received reports covering a total of 14,228 transactions.[91]

One of the more recent, and still controversial cases, involves the Coca Cola company. Early in April, 1966, Coca Cola refused a franchise to an Israeli bottling firm, Israel's largest. Despite the company's official statement that its decision was based upon "economic and market conditions rather than political,"[92] a storm of protests--charging cowardice in the face of Arab threats--followed in the wake of the decision. One week later, in the midst of great controversy and under much pressure from domestic groups such as the Anti-Defamation League, Coca Cola announced the granting of an Israeli franchise to an American banker for the opening of a bottling plant in Israel. The company was then given three months by the Central Boycott Office to explain its decision. Despite negotiation, blacklisting became imminent.

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[91] <u>Export Control, 83rd Quarterly Report</u>, pp. 16-17.

[92] One Israeli official, commenting upon this statement, is alleged to have quipped: "Of course it was an economic decision--there are 80 million thirsty Arabs but only a handful of Israelis."

Coca Cola sales began to fall before the boycott was actually implemented. The result has been that sales--via independent, authorized bottlers--have ceased. In short, the company has lost its Arab market, a rather substantial one at that.

Despite the rather specific and detailed enumerations as to just what constitutes a violation of the boycott, the air is quite muddled in this area. In addition, despite what appear to be stringent regulations and strict enforcement, a rather unclear picture again appears. It should be pointed out that the boycott does allow for other nations and firms to have what are considered "normal trade dealings" in products manufactured wholly outside Israel. Thus, General Motors sells finished automobiles to Israel without problems from the boycott offices. Ford Motor Company did the same; however, when it began shipping Israel component parts and allowed for for assembly in that country, it was boycotted. The Ford boycott is relatively new (1966). Although the firm was never officially notified that it had been blacklisted, its Middle Eastern sales have decreased as the boycott was progressively implemented. In several boycotting countries Chrysler sales then increased.

Interestingly, many Japanese firms have refused to do business with Israel for fear of offending the Arabs and invoking the boycott; however, most would have been exempt from boycott regulations due to the allowance for normal commercial relations. It appears that the volume of business with Israel, particularly Japanese supplies of goods,

has been rather significantly depressed;[93] nevertheless, many Japanese firms do maintain business contacts with both Israel and the Arab states, having done so for years. The number now seems to be increasing, this increase attributable to several factors, the two most important probably being an increasing recognition that not all trade with Israel is banned, and secondly, pressure upon Japanese businessmen, particularly from American business interests which are opposed to the boycott.

It is, therefore, quite possible to do business both with Israel and with the Arabs without violating boycott requirements and at least 70 major American firms do exactly that. Nevertheless, the line between what is and what is not allowed is a rather thin one as well as variable. As an example, one specific regulation requires the blacklisting of firms selling products containing a motor or generator made by a blacklisted firm if the value of the "blacklisted" components equals or exceeds 35 percent of the total value of the motor or generator. However, at least one company got into trouble with boycott officials despite having a much lower figure (8 percent) than boycott specifications. The boycott, in short, contains all the vagaries so typical of administrative protection, arbitrary customs classifications and rulings, etc. The inconsistencies are compounded by the fact that each Arab nation has a national boycott office in addition to the central one in Damascus, and it is the local offices which implement the actual boycotting and make the most relevant decisions in most cases. Their practices differ

[93] See Susan Dworkin, "The Japanese and the Arab Boycott," Near East Report, October, 1968, pp. 11-13, and "Japanese Firms Misread Arab Boycott Terms," Business International, May 17, 1968, p. 155.

greatly. For example, of the three boycott documents described earlier, Egypt is the only state consistently demanding the first affidavit, while Syria and Lebanon do not require negative certificates of origin at all. Other inconsistencies could be added.

The extension of the boycott to companies owned or operated by Jews has greatly expanded the economic consequences of Arab efforts. This extension is relatively new. The Arabs have always maintained that they are not anti-Semitic, if only from the reason that they themselves are Semites. The League's Alexandria Protocol of 1944 reads as follows:

> The Committee deplores the horror and suffering which the Jews of Europe have endured at the hands of certain dictatorial states . . . but the question of these Jews must not be confounded with Zionism, for nothing could be more unjust than to settle the plight of European Jewry by another injustice at the expense of the Palestinian Arabs.[94]

At one time Jews were as fully accepted in the Arab countries as they were in the West. However, because the establishment and promulgation of the state of Israel is, in large part, due to the contributions, especially financial, of world Jewry, their anti-Israel campaign has taken on this anti-Semitic character. Arab sentiments in this regard are clearly demonstrated by a remark made in Washington, D. C., by King Faisal of Saudi Arabia--"Unfortunately Jews support Israel and we consider those who provide assistance to our enemies as our own enemies."[95] Thus, the economic ties between Israel and world Jewry

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[94] Boutros-Ghali, p. 406.

[95] See "Faisal Remark Stirs Up N. Y. Dinner Party," Miami News, June 23, 1966, p. 1.

have resulted in an extension of the boycott, making its economic consequences that much broader in scope.

Not only have individual business concerns been sent questionnaires, but chambers of commerce and other trade organizations have received forms inquiring whether specific companies employ Jews or are controlled by them. A rather well-publicized example of the success of boycott intimidation efforts in this regard is the Mancroft affair. Lord Mancroft, an English Jew, was forced to resign his position with a British insurance company. The company, Norwich Union Insurance Societies, faced the prospect of losing its large volume of Arab business if it did not comply with Arab pressures. However, when the English public became aware of the circumstances surrounding the resignation, much business was lost anyway. There are dangers, then, in compliance as well as noncompliance.

In some areas the boycott has gone to almost ludicrous extremes. Syria goes so far as to boycott phonograph records of musicians like Jascha Heifetz and Yehudi Menuhin, and Danny Kaye was barred from entertaining in Arab lands although on a UNICEF mission. Algeria banned the movies of several leading entertainers, including Sophia Loren, Elizabeth Taylor and Harry Belafonte. These stars are considered as "pro-Zionist." Similar boycotts have long been practiced in other Arab nations.

The boycott's impact with respect to shipping and use of the Suez Canal merits special mention. Literally hundreds of ships have been blacklisted over the years. Interestingly, either individual vessels or entire company operations are subject to blacklisting, so that it is possible for a company serving Israel to still serve Arab states as long

as that company does not attempt to service Arab lands with a blacklisted vessel. It was disclosed in early 1960 that the United States government was in effect respecting the boycott via the U. S. Navy's "Haifa clause." Inserted into Navy contracts with oil tankers was an optional clause authorizing the Navy to cancel its charter if the carrying vessel were denied access to an Arab port due to previous ties with Israel. This clause had been made necessary due to a charter vessel's being forbidden to load oil in Saudi Arabia in 1957. Since the vessel was therefore not capable of rendering the necessary service, the Navy cancelled its contract. A lawsuit for breach of contract damages then followed. The Haifa clause was inserted to avoid this kind of situation and therefore save American taxpayers' money. It did, however, evoke a storm of domestic protest when it was discovered inasmuch as the clause discriminates against those carriers having done business with Israel. This practice was officially terminated in 1960. This same kind of situation has probably prevailed in the transport of P. L. 480 agricultural surpluses to Arab lands.

Undoubtedly, one of the League's most successful weapons in the past has been the blockade of the Suez Canal to Israeli shipping or Israel-related cargoes. Shortly after Egypt assumed control over the canal she repudiated Israel's right of access to that channel. Although the Constantinople Convention of 1888 provides that the canal must be open to all ships in peace or war, and in addition, the United Nations Security Council has ruled that Egypt may not bar Israeli shipping under the UN armistice agreement, Egypt maintains that a state of war still exists between Israel and Egypt. Consequently, from their perspective

the seizure of an Israeli vessel attempting to enter the canal is merely an act of self-defense. For a time after the 1956 war, Dag Hammarskjold secured permission for the passage of Israeli cargoes in non-Israeli ships. "Early in 1959 Egypt blocked even this limited form of transport beneficial to Israel,"[96] but after laborious negotiations prodded by Mr. Hammarskjold, a new agreement was finally reached. By the end of 1959 the new understandings had been twice tested--by one Greek and one Danish vessel, each carrying cargoes consigned to Israel and attempting passage through the Suez. Both ships were detained and their cargoes seized. "The Hammarskjold formula had not worked and since that time no Israeli cargo is known to have transited the Suez Canal."[97]

The organization and coordination of boycott activities is rather remarkable, although serious lapses in policy coordination and enforcement do occur. In recent years boycott activities have increased in both intensity and scope, especially since the June, 1967, war. The Central Boycott Office is located in Damascus and each Arab state has national boycott offices as well. Regular conferences take place among the various liaison officers in charge of the boycott programs. Fifty percent of the value of confiscated goods goes to customs officials and their offices as an inducement to properly ascertain the national origins of imported goods and to confiscate any made in Israel, or produced or

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[96] Harry B. Ellis, "The Arab-Israeli Conflict Today," in Georgiana G. Stevens, The United States and the Middle East, Englewood Cliffs: Prentice-Hall, 1964, p. 132.

[97] Ibid.

marketed by blacklisted firms. The various national offices in each nation enforce the boycott regulations in their respective territories; violators are subject to severe punishment.

In attempting to assess the degree of economic damage resulting from the boycott, the degree of enforcement of the boycott's rules must be examined. It is here that an obvious weakness appears, for enforcement is very uneven. Zeal in enforcement often varies with domestic political pressures, intra-League politics, or with existing economic circumstances in each particular Arab state. Decisions made by the Central Boycott offices must be passed on to the various national offices. Each boycott order is then published in the member states' official gazettes before becoming law. Finally, enforcement is implemented via the local offices.

The problems of enforcement essentially derive from the nature of the boycott mechanism itself. Both economic theory and practice suggest that collusive selling arrangements have a tendency to break down--both due to the inability to detect secret cheating, or if detected, to do anything to stop it--as the number of sellers within the agreement increases. Secret cheating under the boycott--similar to a collusive boying arrangement--is just as likely. The mutually beneficial nature of voluntary trade is clearly brought out in this regard. With voluntary exchange, both parties benefit and the cessation of this trade must entail a loss to each. Since the incidence of this loss is uneven and each of the various Arab states have varying needs and differing degrees of antagonism against Israel, the potential for cheating is obvious. One report suggests that

> although the rules are clearly stated, their application varies. For one thing, Arab nations don't always agree on what constitutes a violation. Some businessmen suggest that the criterion is how badly certain products or services are needed by the Arab country in question.[98]

There are a variety of ways in which boycott rules inhibiting to the enforcing states may be contravened. Perhaps the first is the matter of timing. Offending firms may first be required to give explanations for their actions, then ultimatums to desist, further ultimatums and a host of other kinds of negotiations, which may drag on for quite some time. When finally blacklisted by the Central Office, the offending company may be immediately blacklisted by the member states, or via a variety of delays be able to continue operations for many months or even more than a year in particular countries. In general, if alternative suppliers are readily available, the Arabs may not hesitate to blacklist and then effectively enforce this listing. However, if the degree of damage to any particular state would be great, reluctance is shown. The uneven incidence is demonstrated by the following statement by Robert Weigand concerning the boycott of Ford Motor Company.

> To have closed the Alexandria assembly plant while the Moroccans, largely indifferent to the problems of the Middle East, continued to build trucks for the Arab world would have hurt the United Arab Republic more than Israel . . . many distributors and dealers whose lifetime had been devoted to building a Ford market would have been lost.[99]

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[98]"How the Arab Boycott Works," Business Abroad, April 17, 1967, p. 22.

[99]Robert Weigand, "The Arab League Boycott of Israel," Business Topics, Spring, 1968, p. 77.

It has also been reported that some Arab states have traded with Israel, either openly or clandestinely. In February, 1964, Business International reported:

> Morocco even ships some merchandise directly to Israel and allows blacklisted ships to use its ports. Recently, the French holiday-camp organization, "Club Mediterranée" was blacklisted because of its Israeli camp, although its successful Moroccan operation continues, perhaps because of the 20,000 tourists it attracts annually.[100]

Edmond Asfour suggests not only that Israel-destined oil has traveled through the Suez Canal, but in addition that it has come from Kuwait![101]

Finally, there is extensive evidence of smuggling. For years Israeli farmers and Arab farmers have quietly exchanged certain crops and Israel has "exported" certain minor farm implements. "Arab smugglers--as, for example, farmers in south Lebanon looking toward their traditional outlets in Palestine--risk both public opprobrium and sanctions levied by the Boycott Office."[102] Israeli pharmaceuticals have for a number of years found a market in the upper class families of many Arab states.

Some ways to avoid self-inflicted economic damage have been formalized. One is the official transactions loophole whereby the products of a blacklisted firm can be purchased if a government purchasing office determines that the products of the blacklisted firm are necessary for government purposes and are superior to available

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[100]"How to Live with the Arab Boycott of Israel," Business International, February 7, 1964, p. 5.

[101]Asfour, p. 356.

[102]Ellis, p. 130.

alternatives. Official rationalization designed to tailor the boycott to the fit Arab needs have also been used. When pressure was placed upon certain hotel chains, mostly notably Hilton International, to cease Israeli operations, the hotel organization did not waiver. Inasmuch as the chain operated the Nile Hilton and was considering extending its operations to other Arab lands, when the Tel Aviv Hilton was built no boycott against Hilton was instituted. Officially, it was announced that since the chain only managed hotels, they did not invest directly in the economy and had not, therefore, violated the boycott's regulations. In addition, the "normal commercial sales" loophole has been rather broadly interpreted. The rationalization used in the Hilton case has in various forms also been used with respect to a wide variety of businesses. When the international airline companies remained firm against Arab pressure to discontinue Israeli service, no boycott was instituted since the airlines had acted in concert and the result would have been the isolation (in air transport) of the Arab states from the rest of the world. Hence, many airlines--Air France, Scandinavian Airways, British Overseas Airways, Olympic, Trans World Airlines and several others--serve both markets. Again, the listing of specific vessels rather than entire companies also allows ocean freight and passenger companies to serve each.

The methods of avoiding the boycott by firms wishing to trade with both Israel and the Arab states, but which fear blacklisting, are similar to those used in the Cuban case as well as in the Rhodesian instance. Dummy organizations may be established simply for the purpose of trading with Israel. Another possibility is for a firm wishing to license an

Israeli company to license a third, already blacklisted organization, which then sublicenses to an Israeli organization. Several communist states have formed special trade organizations to deal solely with Israel, while other state trading agencies deal with the Arab countries and other nations. Sometimes brand names are changed, although the product remains the same. In other cases, Israeli trade is handled by an affiliate, subsidiary, or licensee. Nevertheless, it should not be thought that these practices guarantee escape from detection. In many instances such activities have been detected and the companies blacklisted anyway. The boycott offices--in an attempt to be comprehensive--have sometimes mistakenly blacklisted firms because their trade names or products were similar to ones of others on the blacklist, despite the fact that they had not contravened the boycott's requirements. With proper efforts, however, the erroneously listed firms can usually be delisted.

In an attempt to examine the impact of the boycott and its effectiveness, a survey of blacklisted firms was undertaken. Appendix B provides a copy of the questionnaire and a statistical summary of the findings. The major aspects and conclusions, however, will be stated in this section. The survey essentially sampled American firms, with only six foreign (all British) firms reporting, most of the businesses being manufacturing establishments. Clearly the most common reason for blacklisting was direct commercial dealings with Israel, dealings which must have been contrary to boycott regulations. More than 50 percent of the respondents checked this item as the reason for their being blacklisted. Charitable donations to Israeli organizations and/or purchase of Israel Bonds, either directly by the business or by its owners accounted for

several responses. One firm reported that it had erroneously been listed because the Boycott Office's letter had been misplaced and therefore unanswered. It was quickly delisted when the mix-up was cleared. Another did not have any idea why it had been blacklisted, while one did not even know that it had been blacklisted. The secondary boycott--being boycotted because of dealings with a boycotted firm (rather than with Israel)--was reported only once and does not appear to be important as an actual criterion of selection despite the boycott regulations. This, of course, is reasonable as it would be quite difficult as well as expensive to determine the major suppliers of all the non-Arab firms doing business in the Middle East.

Slightly more than 50 percent of the respondents stated that they experienced no loss of customers whatsoever due to the boycott, while just under 50 percent replied positively. Almost all of the firms experiencing no sales declines reported that the reason for this was that they had little, if any, dealings with Arab firms (or peoples). This, of course, indicates that while a great many firms may be blacklisted, a large number may nevertheless feel no economic pressure whatsoever since they have no Arab markets. It should, perhaps, be noted that had the survey included more European firms it is likely that a much larger proportion would have had dealings with Arab peoples. In short, American businesses have a greater degree of freedom of action due to the very small relative importance of the Arab world for American exports and imports. For European business the impact is likely to be much greater. A few firms also stated that they experienced no sales losses due to a failure of effective enforcement. Thus, despite being listed, their sales to Arabs continued undiminished.

Forty-eight percent of the respondents experienced some loss of customers. With four exceptions these were all Arab customers. Non-Arab patronage lost--a result of the prohibition upon trading with blacklisted firms--resulted in negligible sales declines for one firm and considerable losses for three. One of these stated that it lost its major customer when that customer was threatened with the loss of its Arab patronage unless it curtailed its business with the blacklisted firm. The loss of this major customer reduced normal sales by more than 50 percent. One other firm also reported losing more than 50 percent of its non-Arab customers, while a third lost between 25-50 percent. Although not specified, it is probable that in each of these cases one or two major customers were lost. To summarize, the secondary boycott does not seem to be of great importance in the aggregate; however, for particular firms this aspect of the boycott can be extremely damaging.

It is probably safe to conclude that small firms are more susceptible to boycott pressures than larger ones. This is true because the bulk or all of their sales may be with Arab peoples or with one or two major non-Arab customers who might be vulnerable to Arab economic sanctions. In addition, it is unlikely that any great public outcry will be heard if a small firm complies with the boycott. Indeed, few people will probably ever find out. However, large international corporations are more in the public eye and more sensitive to the possible adverse publicity with compliance may evoke. Both Coca Cola and Renault are good cases in point. In addition, with much greater diversity in their sales territories, the loss of the Arab market may be of relatively minor significance.

The majority of business losses involved the cessation of sales to Arabs. More than 50 percent of these firms lost over half their Arab sales. Since this was an open-end choice, it is not possible to know how much over half, but almost any sales losses of this magnitude are significant, unless the proportion of total sales absorbed by Arab customers in negligible. This suggests that the overall effect upon most companies' operations due to the loss of Arab customers is likely to be less than proportionate to the volume of the Arab sales since these markets in general did not weigh heavily for the respondents. Nevertheless, a loss of more than 50 percent does suggest that the boycott has been highly significant in terms of the Arab market alone. Other firms reporting losses of Arab sales found them to be relatively small. It is of interest, although apparently of little economic significance, to note that one respondent reported a decrease in his Latin American sales due to the boycott. Certain manufacturing enterprises in Latin America are owned and operated by people of Syrian and Lebanese extraction and a local Arab organization urged these enterprises to cease buying from one of their traditional suppliers who had blacklisted due to trade with Israel.

The statistical findings and the added comments clearly indicate the uneveness of the boycott and its frequent failure as well as its extreme potency. A large number of respondents stated that although they lost some Arab customers, many continued with absolutely no repercussions. This finding coincides with the conclusions of the few other investigations, however cursory they may have been, made concerning the boycott's impact. It is, therefore, clear that the boycott is far from

100 percent effective in terms of denying access to the Arab market to blacklisted firms. It should, however, also be mentioned that some firms reporting no losses--due to the absence of Arab patronage--stated that they had anticipated entering the Arab market, some even having licensed Arab distributors; however, due to blacklisting these potential sales were never realized.

As to how the firms surveyed weighed the overall impact upon normal operations of their being blacklisted, 57 percent stated that it had no effect, these essentially being the firms with little, if any, Arab patronage or whose extra Israeli sales cancelled Arab losses. About 20 percent rated the overall impact as insignificant, with only mild changes having to be taken in firm policies and operations, while roughly 15 percent experienced either moderately or highly significant effects. For these firms, the boycott was definitely disruptive, in a few cases extremely so.

It is of some interest to note that more than 40 percent of the respondents chose to remain anonymous. There was, however, no particular correlation between anonymity and amount of damage shown. Several letters were also received in which some companies courteously replied that they preferred not to discuss the question of the boycott at all, or at that time.

Mention should also be made of a relatively recent development--Israeli countermeasures. In January, 1965, it was announced that the products of firms which complied with Arab demands were to be subject to discriminatory treatment in Israel. In addition, early in 1966 Israel warned seven companies to stop doing business through third

parties (to avoid conflict with the boycotters) or through dummy organizations--all seven acceded. Of course, the first measure will probably have little impact since firms complying with the boycott have by their very acts of compliance abandoned the Israeli market as a rule. Hence, the volume of goods affected is negligible. The second measure will be more effective, but taken only slowly as Israel feels its market offers a sufficient counterweight to the Arab market. For years Israel has been aware of trade via intermediaries and not interfered simply because it needed the items and did not wish to force suppliers to choose between the two markets.

Of greater significance in countering the boycott have been the efforts of various domestic groups in non-Arab nations which have aroused a negative public reaction against firms acceding or appearing to accede to the boycott. In this regard, the Coca Cola and Renault cases as well as the Mancroft affair are clear cases in point. Finally, along this same general line, the publicity which Japanese acquiescence has recently received evoked a strong negative response from many American businesses, some of which cancelled orders and/or pressured their Japanese suppliers. The result has been a rather successful dissolution of Japanese boycott compliance.

Economic Impact upon Israel

To demonstrate that the boycott has been rather damaging to some firms does not, of course, prove that Israel has lost either customers or suppliers because of the boycott. Most companies which have ceased Israeli operations state that their business was not satisfactory, had

little potential, or did not fit in with their general operations as expected. It is rare that organization admits openly that it has complied with the boycott. Hence, it is a moot question as to exactly how many companies actually did cease operations because of losses or small earnings, or how many really yielded to boycott pressures, simply giving poor earnings as an official explanation. Logic would suggest that some companies are more susceptible than others and those with very heavy dependence upon Arab markets might be committing suicide by noncompliance. As one New York banker advised, "In some cases it would be a very good idea if the company with Middle Eastern markets didn't violate the boycott at all."[103]

Israeli sources claim that the boycott will rarely be effective, particularly if the product supplied is needed by the Arabs. However, they have a vested interest in minimizing the boycott's impact; hence while there certainly is some truth to this kind of claim, the unevenness and inconsistency of the boycott gives no assurance to any particular company either way. The ability to withstand Arab economic pressure seems to depend most generally upon the size of the firm, both absolutely and relatively, the number of firms in the market, the actions and attitudes of competitors, and finally, the share of output which is marketed in Arab nations. In short, doing business with both the Arab states and Israel has been likened to walking on a tightrope, with a great deal of uncertainty prevailing.

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[103]Quoted in "How the Arab Boycott Works," Business Abroad, April 17, 1966, p. 23.

Despite the difficulty in getting official confirmation of boycott compliance, several sources do report the actual termination of Israeli operations. Business International has written:

> there is no question that the boycott has hurt the sales of US and European firms; many of them are winding up their business connections in Israel to get themselves delisted.[104]

Ellis reports: "Faced with the loss of their Arab markets, dozens of Western firms and shipping companies have capitulated to the boycott and severed trade ties with Israel."[105] Weigand confirms these findings, writing that it "is beyond dispute that many of these firms had to choose one market and forego the other."[106] The uncertainty and confusion which the boycott has imparted to trade in the Middle East is well described by an Israeli source as follows:

> The psychological impact of the Arab boycott is strong, and it is not only limited to individual companies. It has penetrated Chambers of Commerce . . . other economic organizations and . . . some government offices. With the help of boycott threats and blackmail, the Arabs have succeeded in creating an atmosphere of fear. Nobody is quite sure what is permitted and what is taboo. This climate of uncertainty has forced many companies to withdraw from all contact with us.[107]

It should, perhaps, be noted that the Arabs have also suffered from this atmosphere of uncertainty as well as from a loss of foreign investment when firms forced to choose between the two markets selected Israel.

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[104] "The Arab Boycott of Israel," Business International, January 24, 1966, p. 1.

[105] Ellis, in The United States and The Middle East, p. 130.

[106] Weigand, p. 75.

[107] A. Dagan, "The Arab Boycott," in The Israel Year Book, 1966, L. Berger, editor, Jerusalem: Israel Yearbook Publications, 1966, p. 252.

It is, therefore, quite clear that Israel has lost potential investment and trade opportunities due to the boycott and has also experienced some absolute losses in commercial ties with firms previously participating in its economy. A quantitative estimate of these impacts, however, is impossible. In order to measure the opportunity costs of unrealized potential trade it would be necessary to know first of all approximately how many firms cancelled Israeli-oriented plans (or decided not to plan in that direction at all); secondly, what volume of trade these plans might have entailed. As for measuring direct losses rather than potential, the same thorny problem of the number of firms ceasing business is presented. This just cannot be known since the firms themselves will attempt to disguise the fact. One additional factor of importance must be mentioned. For each firm discouraged by the boycott--both potential and actual--it is likely that the void thereby created may very well be filled by other firms, thereby reducing the original impact. If marketing opportunities appear promising to one business, it is likely that before not too long they will also appear promising to another, although this is not necessarily the case in every instance. While it is true that similar firms may be similarly situated concerning their degrees of vulnerability to the boycott, it is also true that they may not be. In addition, the reactions of firms to the boycott will differ--whereas one may not be willing to sacrifice its Arab market, another with a market of similar importance may nevertheless do so. Here then is another factor--essentially indeterminable--which would have to be known in order to make a meaningful estimate. The conclusion of the study in this area of the boycott, then, is that on net

balance Israel has undoubtedly experienced some absolute declines in trade ties and has foregone trade opportunities and potential capital inflows. The dollar value of these losses, however, is wholly incapable of estimation and may range from only very marginal losses to as much as hundreds of millions annually.

Another area exists in which Arab efforts may be bearing fruit, although again any attempt to quantify is hopelessly snaguine. This is in the realm of technology. A. Dagan, formerly a director in Israel's Ministry of Foreign Affairs has written:

> We still feel the boycott . . . in the field of know-how. We have reached a point where the know-how we need is becoming more and more sophisticated and often concentrated in the hands of two or three world companies. Since it is naturally much easier for the Arabs to put pressure on two companies than twenty, from time to time we do face difficulties. We have often wasted valuable time in overcoming such problems, crucial to the development of certain branches of our industry.[108]

With regard to the Suez Canal an estimate concerning the value of goods bound for Israel confiscated by the Egyptians is available. It comes from an Israeli source and is pertinent only through 1956. These goods were taken from both Israeli and non-Israeli ships attempting to transverse the Suez Canal and were valued at $5.6 million.[109] Of course, the number of ships attempting passage was very low in the first place due to the likelihood of confiscation. For eight years (until 1956) Egypt also blockaded the Gulf of Aqaba (at the southern tip of Israel), thus choking off potential trade through that body of water and retarding

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[108] Ibid.

[109] Abba Eban, Voice of Israel, New York: Horizon Press, 1957, p. 262.

the development of the port of Eilat. In this regard another Israeli source had this to say:

> For years Egypt applied blockade measures in the Gulf of Aqaba against ships bound for Israel's other port of Eilat, whose development she succeeded in bringing to a virtual standstill.[110]

Denied usage of both the Suez Canal and the Guld of Aqaba, Israel's ocean shipping was forced into an awkward pattern around Africa, which increased freight and transport costs due to the greater distances involved, brought greater delays in shipping, and increased insurance tariffs. In addition, the fact that vessels bound for (or leaving) Israel cannot load or unload at neighboring ports means that they must at times arrive or leave with less than capacity cargoes. This failure to fully utilize carrying capacity is another boycott-induced factor resulting in greater transport costs for Israel.

Transport costs are also increased when items must be purchased from distant markets when they could be readily bought in neighboring Arab markets for which freight expenses would be minor. Perhaps the best example of this is petroleum. Crude oil has been brought by tanker to Haifa from all parts of the globe (most from Iran in recent years), although Arab oil from much closer sources is available. Before 1948 the Haifa refinery had received oil from the Iraq Petroleum Company via pipeline. This form of transport coupled with the relatively short distance involved minimized oil transport charges. The capacity of the completed pipeline plus that of the incompleted one (interrupted and

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[110] Walter Eytan, The First Ten Years: A Diplomatic History of Israel, New York: Simon and Schuster, 1958, p. 102.

unfinished due to the 1948 war) would probably have amounted to 6 million tons annually. Originating in the Kirkuk fields in Iraq and traversing Jordan, the pipeline had carried oil to the Haifa port for export to Europe and other parts of the globe in the Mandate days. After the refinery at Haifa was completed, refined oil was then exported. Since 1948 the cessation of supplies from Iraq has greatly increased the costs of petroleum transport, with some shipments having come from as far as Venezuela. A Lebanese economist in 1967 stated the following with regard to the petroleum sanctions:

> With the boycott . . . Israel besides losing all the royalties, had had to expend some $300 million on a pipeline from Eilat to Haifa, and it has had to pay $100 million for oil supplies (to date) more than it would have had the pipeline from Kirkuk to Haifa remained in operation.[111]

These figures seem reasonable so that, despite the possible bias of the source, they may still be accepted as useful generalizations. The same situation prevails with several other products--essentially raw mate-raials--for which Israel must now pay rather heavy transport costs rather than purchasing from her immediate neighbors.

Because all overland and pipeline methods of transport are blocked and because both air and ocean freight must undertake circuitous and costly routes, Israel's foreign exchange reserves were being drained by excessive transport expenses. In an effort to conserve foreign exchange a deliberate policy of creating Israeli merchant marine tonnage was followed. Beginning with almost nothing in 1948--a few old ships

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[111] Marwan Iskandar, quoted in Imad Shehadeh, "Arab Boycott Hinders Israel," Beirut Daily Star, May 7, 1967.

which had formerly brought Jewish immigrants illegally into Palestine--Israel's tonnage in 1967 approximated 1.5 million. Most of this was created via German reparations and produced in West Germany. Now, however, Israel has its own shipyard at Haifa. Israelis often point to the development of their merchant marine--of which they are quite proud--and state that this has been one of the positive aspects of the Arab boycott. Although the development of this sector does indeed seem to be a direct result of the boycott, given Israel's factor endowments and price structure it does not seem to be an "economic" undertaking. Weigand concurs in this, stating: "Although probably contrary to the law of comparative advantage, the boycott encouraged Israel to develop its own fleet of ships."[112] In short, the factors directed toward the development and actual operation of Israel's merchant marine would in all likelihood be of greater value elsewhere. Hence, Israeli pride concerning this development may be likened somewhat to that of an underdeveloped country proud of its new sports palace, despite the secondary economic importance of the structure. Of course, the purpose--to conserve hard currency earnings--has been served, although being done at excessive cost; and, certainly, the merchant marine has made contributions far greater than any sports palace.

Since little of Palestine's capital stock originated in the Arab countries, Israel has not had to face the problems which have plagued Cuba. The boycott has had no effect to speak of on the ability to obtain needed spare parts and maintenance requirements nor has the

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[112] Weigand, p. 80.

boycott resulted in the idleness of Israeli resources. There is, however, one major exception to this last item and that is the Haifa refinery. The refinery was built during the Mandate period to process the oil coming to Palestine via pipeline so that export income in addition to transit fees would be earned. However, because of the greater transport costs now involved and because its products are marketed only in Israel, the Haifa refinery for years operated at far below its capacity, for a long period at less than 50 percent. This under-utilization entailed an opportunity cost which should be recognized, although it seems that the needs of Israel's rapidly growing economy have in recent years been able to almost fully utilize the Haifa facilities.

Previous discussion has already described the trade relationships between Palestine and other Arab lands as well as the interactions between Palestine's Jewish and Arab sectors. Palestine did import food from neighboring lands and the Jewish urban sector was provided with Palestinian Arab food supplies (6-7 percent of the total). The local Arab markets, in addition, absorbed Jewish manufacturing and purchased services from the Jewish sector. Nevertheless, the artificially restricted nature of Arab-Jewish trade must be stressed and borne in mind when assessing the trade potential between Israel and the Arab states. Trade with Egypt and Syria as well as oil from Iraq was of great importance in Palestine's Middle Eastern commerce.

What, then, are the trade prospects for Israel in the Middle East? Normal trade relations between Israel and her neighbors would result in greater savings and mutual advantage to all concerned. Lacking

raw materials and an abundance of natural resources, Israel could be expected to import considerable quantities of Arab exports. As Meyer suggests,

> Israel needs many of the raw materials currently produced in nearby Arab countries--cotton for her textile mills, cottonseed meal for her fishponds, food grains for her bakeries, oil for her industry and motor transport. Today she buys most of these in the world's most expensive markets, while . . . sources lie tantalizingly near to her frontiers.[113]

Cattle fodder, meat, and hides are other likely imports. This is not to imply that Israel's trade would suddenly become wholly Middle East oriented. Trade with the area--both imports and exports--could be expected to increase substantially. However, recalling the foreign trade of the Mandate period, it should be remembered that probably only one-fifth of the total imports came from the Middle East, while only a little over 10 percent of Palestine's exports went to this region. This rate of participation was likely to have been maintained had there been no political hostilities. Indeed, given the growth of Israel, it is likely to have increased. It would not, however, dominate Israel's foreign trade.

Therefore, had Israel and the Arab nations been able to resolve their differences in the late 1940's, it could be expected that Israel would have shared in the benefits of intraregional trade. A United Nations report in 1963 noted that both Jordan and Lebanon sold more than 60 percent of their exports (computed on a value basis for the period 1957-1962) to other Middle East nations. The corresponding

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[113]A. J. Meyer, Middle Eastern Capitalism, Cambridge: Harvard University Press, 1959, p. 24.

figure for Israel was a mere 5.2 percent, this trade being exclusively with Cyprus and Turkey, i.e., no reported trade between Israel and her Arab neighbors. Israel's imports from the Middle East were only 1.3 percent of her total imports; the corresponding figures for Jordan and Lebanon were 26.8 percent and 21.7 percent respectively.[114] These intra-Middle East trade statistics leave no doubt as to the possible potential participation of Israel's economy with the economies of her neighbors, again assuming normal trade relations since 1948. The economic loss, then, can be viewed against this background of potential trade foregone.

A second point more closely approximates the contemporary situation, but involves a bit more speculation. Normal trade relations, of course, have never existed. If, however, trade were to be normalized tomorrow and amicable relations established, what economic effect would this have upon Israel and intraregional trade? It certainly could not be expected that Israel's participation in Middle Eastern trade would soon approximate the potential it might have reached had normal relations always existed, or even approximate the participation ratios of her Arab neighbors. The past 18 years of isolation have geared Israel's economy to trade with Europe, the Western Hemisphere and other non-Arab areas. The Arabs, too, have developed trade patterns which are totally exclusive of Israel. Structural differences developed over the past 20 years would curtain the participation ratios of both

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[114]Department of Economic and Social Affairs, Economic Developments in the Middle East, 1961-1963, New York: United Nations, 1964, pp. 76-78.

Israelis and Arabs. More specifically, Israeli exports on the whole would continue to go to non-Arab markets (barring several exceptions), while her imports from the Arab world could be expected to increase substantially. Even in this latter category, however, the full benefits from trade could not be expected to accrue to the participating parties very soon. During the past several years Israel has carefully cultivated economic and political relations with most of the newly developing nations of Africa. These countries have provided some sources of supply of primary products and it is quite doubtful that relations would be readily discarded in the event (highly unlikely) of Arab-Israeli peace tomorrow.

As for Israel's potential export markets in the Arab world, this is an area of even greater speculation. Palestinian, essentially Jewish, manufacturing found a market both with local Arabs and within the Middle East. Indeed, this market was one of the factors allowing for the expansion of manufacturing within the Jewish sector--which had a limited capacity to absorb such products--during the Mandate period. It is likely that Israel's manufacturing would definitely find markets within the Middle East, although it should be borne in mind that Israeli products have tended to be high-priced and would have to compete with the goods of other industrial countries in markets which have become increasingly protectionist-oriented. However, Israel's geographical proximity would reduce freight expenses and clearly be an advantage. In addition, flexibility and know-how should also result in striking improvements in Israel's competitive position. However, many of Israel's other exports are similar to those items exported by surrounding states and would not, therefore, be directed toward the

Middle East. In addition, many Israeli exports would be considered luxuries for the majority of Arabs. Nevertheless, the opening of Arab markets would present a wealth of opportunities for Israeli industry. Israeli exports would need to be of the cheaper, low-cost variety in order to get a strong hold on the Arab market. The necessary innovations are likely to be forthcoming--and useable domestically as well--given a sufficient stimulus. Israeli manufacturers have for a long time been shielded from significant foreign competition, while rapidly rising domestic demand has lessened the need to export. The opening of the Arab market, however, may very well be the stimulus necessary to ignite much of Israel's long dormant entrepreneurial potential and prod its producers towards international competitiveness.

On net balance, it appears that Israel might perhaps have an adverse trade balance with her neighbors. However, lower transportation costs and the Arab supply of raw materials, food, and petroleum which would result from an end to the boycott would most certainly lower Israeli costs and enhance her competitive position in other world markets. Many of the raw materials imported would be processed and then exported, some in all probability returning to the Middle East. Lower priced imports would also aid in reducing Israel's perennial inflation problems.

On the invisibles account Israel is likely to gain very substantially. The opportunity cost of foregone service and investment revenues has without question been very great. The commercial potential of Palestine was not realized in the state of Israel and a Middle Eastern entrepot did not emerge. Oil pipeline royalties have been an important source of revenue for Syria, Jordan, and Lebanon and were a growing source for

Palestine. Without doubt they would be important for Israel were it not for the boycott.

"In the field of trade, Israel's port at Haifa is more favorably situated to transport Jordan's foreign trade than is either Beirut or Aqaba, and could in fact regain its position as a starting point for transit trade across the desert to Iraq and Iran."[115] For Jordan, Haifa is the natural outlet to the Mediterranean. Its trade, however, has been diverted to the Lebanese port of Beirut via Damascus. The tolls on this transit trade would be very substantial, but have been foregone since 1948. Other transit trade is very likely to have developed to a significant degree. Most of this traffic, however, has been diverted to Lebanon. It is also likely that Israel's thriving economy would have attracted excess Arab capital. Again this has been channeled mainly through Beirut rather than Israeli brokers. Without doubt many large international businesses would have located their Middle East headquarters in Israel--a former British Mandate and populated by a highly literate, Western-oriented population. Instead, regional offices of such firms are spread about among the Arab countries. In addition, as a growing _entrepot_ Israel would have been able to attract much greater volumes of investment from the West.

During the Mandate period, Jewish services had been exported to both Palestinian Arabs and those in surrounding territories. These would have grown and, of course, been stimulated by the above-mentioned developments. Finally, it is very likely that Israeli firms would be

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[115] Asfour, p. 355.

subcontracted by European businesses doing work in Arab countries. This potential for invisibles earnings is also likely to be very considerable. Consequently, Israel's prospects for becoming a "Switzerland of the Middle East" were enormous; its progress toward this end, however, has been close to zero and is likely to remain stultified unless (and until) a true peace and normal trade relations are established.[116]

The importance of European markets for Israel has already been demonstrated. The increasing problems encountered by Israeli products in the Common Market nations have also been mentioned. This market is vital for Israel, and the maintenance of its economic position within the Inner Six is one of Israel's major economic and political tasks. For years Israel has requested of the Common Market an associate-member status;[117] the Arab states, however, have applied tremendous pressure to prevent this (see Appendix B for a resolution of the Arab Economic Council). The possibility of economic disruptions in Europe due to Arab retalizatory measures seems to be the major hindrance to concessions and associate status for Israel. Jensen and Walter, in their Common Market study, report as follows:

> Problems encountered in the Israeli discussions, however, centered implicitly around the political repercussions of the Arab-Israeli conflict. Common Market negotiators seemed to fear vehement protests from the Arab nations, possibly even severance

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[116]A true peace would, of course, greatly ease the Middle East's development problems by allowing a reduction in military and defense spending and the consequent diversion of resources to infrastructure and human capital development.

[117]For a concise account of Israel's initial overtures, see Rouhollah K. Ramazani, The Middle East and the European Common Market, Charlottesville: University Press of Virginia, 1964, pp. 70-74.

of diplomatic relations with EEC member-nations, if significant trade concessions were given to Israel.

Early in March, 1964, moderate tariff and quota concessions were finally granted to Israel by the EEC Council of Ministers. These concessions fell far short of the original Israeli request for full association with the EEC, but this latter objective was clearly inconsistent with the maintenance of reasonably cordial relations between the Common Market nations and the Arab countries.[118]

Both the necessity for Israel of maintaining Common Market trade ties and the enormous potential which associate-membership would bring have been well demonstrated in a recent article.[119] Here again, then, the Arab boycott is working to Israel's disadvantage.

Since Israel's economy has greatly depended upon unilateral transfers, it may be thought that Arab economic measures have had "boomerang" effects in the form of additional development funds and unilateral donations which Israel receives from world Jewry and other sympathetic private and public organizations--funds which might not otherwise have been forthcoming. If this hypothesis were correct, then to the extent that economic relations with the Arabs improved, less development funds would be forthcoming, thus diminishing the net gains from a resumption of normal trade. Indeed, it would indicate that a portion of the incidence of the boycott has been shifted to other parties. However, the facts do not bear out this supposition. A major portion of unilateral transfers have come from Germany and were restitutions and reparations for the Nazi persecutions. These funds would have been

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[118] Finn B. Jensen and Ingo Walter, The Common Market, Philadelphia: J. B. Lippincott Company, 1965, pp. 123-124.

[119] Mordechai E. Kreinin, "Israel and the European Economic Community," Quarterly Journal of Economics, May, 1968.

forthcoming anyway, with or without the boycott. The same is true with respect to early American aid. The only source of funds which might have been affected is world Jewry. However, the boycott itself has never been an issue in Israel's fund-raising efforts. Although donations from world Jewry have increased substantially during times of military crisis, the economic sanctions have gained no spotlight and very little world sympathy.

Interestingly, the Israeli Foreign Office has maintained several alternative, and conflicting, lines concerning the boycott, some of which are: firstly, that it is hurting the Arabs more than it harms Israel; an alternative line has been that the boycott constitutes an enormous burden upon the economy; and thirdly, that the boycott has stimulated Israel's industrial, agricultural, and commercial development, the Arab measures merely providing a greater incentive towards efficiency and competitiveness. None of these views seems particularly accurate. Inasmuch as in the efforts directed toward obtaining assistance for Israel, the burdens of the boycott mechanism have played at best only a very minor (if any) role, it is not valid to hold that the incidence has been shifted. Indeed, world-wide fund-raising drives will most certainly continue with full force (and with the same probable efficacy) no matter what happens on the economic plane between Israel and her neighbors.

To the list of potential gains which are never realized because of Arab-Israeli antagonism must be added the advantages of joint irrigation projects, soil conservation, water desalinization, and anti-locust schemes which would benefit both Arabs and Israelis. But these opportunities are either foregone or undertaken separately at high cost.

Peace and normalized trade would also make joint tourist excursions to the whole of the Middle East again feasible, thereby enhancing the foreign exchange receipts and general business in the entire region. In short, as one source suggests, the "economic costs of non-cooperation between the Arab states and Israel are staggering."[120]

The difficulties of making quantitative estimates of the costs of the boycott have been stressed. The value of opportunities foregone is impossible to obtain or even estimate. Without doubt, however, these have been greater than the direct costs to Israel--increased transport costs, higher priced raw materials, etc. Two rather outdated estimates will be mentioned, although neither source even vaguely hinted as to the method of calculation. Gardner Patterson, in a report to the U. S. State Department in 1953, estimated the annual cost of the boycott to be $25-30 million.[121] Harry Ellis, in a 1957 publication, provided an estimate of roughly $40 million annually.[122] Again, no methodology or itemization of calculations was provided. A reasonable conclusion concerning the boycott seems to be that the boycott is an encumbrance often painful and prohibitive of certain actions, but is far from having the lethal effect for which it was intended. Israel remains an economically viable nation and has enjoyed very rapid growth and development. The direct

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[120] J. H. Thompson and R. D. Reischauer, Modernization of the Arab World, Princeton: D. Van Nostrand Company, 1966, p. 74.

[121] Gardner Patterson, "Israel's Economic Problems," Foreign Affairs, January, 1954, p. 321.

[122] Harry B. Ellis, Israel and the Middle East, New York: Ronald Press Company, 1957, p. 162.

costs, then, have been substantial, but far from staggering. In short, the boycott functions more as a thorn in Israel's side (with respect to the direct costs). Concerning the indirect costs--the unrealized benefits of foreign investment, transit earnings, new manufacturing markets, joint Middle East ventures, and the gamut of opportunity costs enumerated earlier, the boycott has no doubt significantly kept Israel from achieving its full economic potential. These opportunities foregone without question outweigh the direct costs many times.

As has been indicated earlier, an examination of economic sanctions is essentially a speculative exercise. Therefore, the nature of the subject is such that the hypotheses and conclusions presented are rarely capable of empirical testing. In this particular situation, however, the Six Day War of 1967 has provided--via Israeli conquest of additional areas--some insight as to the possible trade patterns which might prevail.

Economic links with the occupied areas has and is occurring on the basis predicted in earlier pages. As in the Mandate period, trade is artificially constrained; and the recent increase in guerilla activities as well as a fear of collaborator labels has no doubt served to keep commercial intercourse far below its optimum levels. The pattern of exchange mirrors that which existed under the Mandate. As of May, 1968, it could be reported that roughly 90 percent of the West Bank's (area of occupied Jordan west of the Jordan River) agricultural surpluses (output in excess of local consumption) were being sold to its traditional markets in Jordan (and from there to other areas of the Arab world, as in the past), while 10 percent of these surpluses went to

Israeli industry--particularly for fruit and vegetable processing and canning--to private individuals purchasing at open markets, or to export markets via transit through Israel.[123] West Bank exports to traditional markets, then, have been maintained, although importing from former sources is now more restricted. The direction of export trade from the West Bank across Israel to the Mediterranean clearly shows the natural transit advantages which Israel possesses. Interestingly, unmarked Israeli goods have been going to the West Bank and from there reexported into the Arab world. In addition, "Farm produce from Jordan and beyond, officially destined for the West Bank, found its way to the Tel Aviv markets."[124]

Israel's extremely tight labor market situation coupled with higher Israeli wages has attracted more than 15,000 Arab workers in the occupied areas to employment in Israel. Arab labor has made particular contributions in agriculture, building trades, and tourism. In addition, about 3,000 West Bank Arabs are employed by Israeli Arabs.[125] Pressures on wages, then, have been eased. This free (actually work permits are given by the Israeli authorities) movement of factors is highly beneficial to each economy, but again is constrained by the fear (as well as dislike of Israel) of reprisals from intense Arab nationalists.

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[123]Mordehai Nahumi, "Policies and Practice of Occupation," New Outlook, May, 1968, p. 32.

[124]Walter Schwarz, "Israel's Bitter Honeymoon," Manchester Guardian, May 8, 1969, p. 7.

[125]Economist Intelligence Unit, Israel: Quarterly Economic Review #4, 1968, p. 8.

Again reminiscent of the Mandate period, Israel's exports to the West Bank--a market which is becoming increasingly important to Israeli businessmen--consist largely of manufactured items and services. In addition, Israeli government agricultural extension services have very significantly increased farm productivity in the West Bank, introducing new seeds, pumping devices, plastic-covered tomato crops, and a host of other innovations. The West Bank economy has been booming and its growth, as a rule, has occurred without direct Israeli investments. In addition to agricultural innovations, the stimulus for increased economic activities derives essentially from access to Israeli markets and from subcontracting revenues from Israeli firms, especially in textiles, furniture, woodworking, and related trades--areas of traditional Arab skill and advantage.

The 1969 volume of trade with the West Bank appears to have yielded Israeli exports of Ł280 million and imports from that area of roughly Ł230 million. One very recent summary of trade with the occupied areas clearly indicates some of the positive effects for Israel.

> The link with the occupied areas has proved extremely beneficial to the Israeli economy . . . . In particular it has helped to maintain the stability of prices and wages . . . the supplies of cheap Arab goods and services (vegetables, building stone, etc.) and helped to keep prices down in Israel.[126]

The reuniting of the two sectors of Jerusalem (formerly it was not possible to pass from one sector to another) was expected to be a

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[126] Economist Intelligence Unit, Israel: Quarterly Economic Review, #1, 1968, p. 7.

boon to the tourist trade. Israeli capital has been invested in hotels and tourist facilities in the former Jordanian part of the city. As anticipated, 1968 was a record tourist year for Israel, both with regard to the number of tourists visiting, their length of stay, money expenditures, and a host of other tourist indicators. In view of the tremendous tensions in the area and the guerilla activities which have extended even beyond the Middle East, this tourist boom is even more remarkable.

Although reasonably accurate hypothesizing can be done concerning broad areas of exchange and basic comparative advantage, there are hundreds or even thousands of individually minor, although in the aggregate, significant areas of exchange which are likely to emerge when free trade is instituted. To prognosticate which exact areas, then, would be exceedingly precarious. However, the mutual interactions which have been occurring in Jerusalem, where economic intercourse has advanced the most, give some indication of the scope of mutually advantageous exchange. More than 3,000 Arabs work in the Jewish sector of the city, paying income taxes and enjoying the benefits of Israel's welfare system. A rather brisk traffic occurs between the two sectors, for both business and pleasure. The Arabs have demonstrated a hearty demand for a wide variety of Jewish products and services, one of which is Israeli ice cream, much savored in the Arab sector. In a similar vein, Israelis tour and shop in the Old City (the Arab sector), while on Friday evenings Jewish youths escape the rigors of Sabbath closings by spending time in discotheques in the Arab sector. These are only a few of the many minor areas of exchange which have taken place, but could hardly be anticipated in a general analysis.

To summarize, the Arab boycott has without question been inimical to Israel's growth and development and in addition has retarded the economic progress of the entire Middle East.

Political Repercussions

The boycott is, of course, only one aspect of the general Palestine problem (the term most used in the Arab world). Until a reconciliation on the political level between Israel and the Arab states can be achieved, the boycott will no doubt continue. It has, however, patently failed to achieve its political objectives. Israel is not isolated from the world economic community, but is very much a part of it. Despite estrangement from its neighbors, the Israeli economy has not crumbled but instead has advanced by leaps and bounds. If the goal has been to weaken the military and industrial strength of Israel in order to contain that state (if not destroy it), the remarkably quick and overwhelming defeat of the Arabs in 1967 as well as the tremendous enlargement of territory under Israeli jurisdiction indicates that whatever debilitating effects the boycott may have, they were not sufficient relative to the needs and desires of the Arab world. In short, the boycott has been a political failure.

The economic isolation of Israel in the Middle East has allowed the creation and growth of a highly distorted picture of Israel and Israelis within the Arab world. Arab children have for years studied textbooks containing some of the most ridiculous allegations and descriptions and creating an image which could only be maintained in the total absence of intercourse between the Arab and Jewish communities.

Newspapers and other communications media have also contributed to the maintenance of hatred against Israel--a hatred not solely based on the understandable resentment and rivalry during the Mandate and the subsequent refugee problem. Instead, an image of an evil stereotype, a people to be scorned and eliminated, has been created. It is not the belief of this writer that the opening of trade would suddenly lessen antagonisms over the basic issues, nor would it bring harmonious interrelations disrupted only by the competitive drive for profits; however, through trade and economic interactions some modis vivendi would very likely be reached. Certainly the present unfounded hatred of the Israeli stereotype would largely fall by the wayside as interchange proceeded and Arab peoples came to realize that Israelis were very much human beings with the same problems, goals, and anxieties as other people. Such a realization coupled with expanding economic intercourse would help in easing tensions separating the two peoples within the Middle East. It should not, however, be implied from this that the writer feels that once (or after) commerce (or even understanding) is initiated and normalized that the political problems will solve themselves. It seems rather optimistic to believe that just because conflicting parties are willing to make some social arrangements with each other--even to sit down at the conference table and negotiate--that true accord will automatically (or necessarily) result. While some accommodation--perhaps an economic one via trade--is probably a necessary condition for accord, it is hardly a sufficient one. Without question, the Arab-Israeli problem will not and cannot be solved until at least two

conditions are met: (1) the recognition of Israel by the Arab states as well as a recognition of what the Israelis term secure and realistic boundaries, and (2) a settlement of the refugee problem to the Arabs' satisfaction. Whether these two questions can ever be resolved to their mutual satisfactions, however, is a moot question.

CHAPTER IV

RHODESIA

Historical Background

Rhodesia is a landlocked territory, lying wholly to the north of the Tropic of Capricorn, in southern Africa (see Figure 3). With a land area approximately the size of California, the nation is bounded on the north and northwest by Zambia, on the south by South Africa, by Mozambique on the east and northeast, and by Botswans on the southwest. Topographically, the outstanding feature is the central plateau, about 400 miles long and 50 miles wide, which elevates most of the area between 3,000 and 5,000 feet above sea level. This factor is the basic cause of Rhodesia's pleasant and even climate despite its tropical location. Salisbury, the capital, is the largest city, with Bulawayo being the second most populous town. The total population, as of December, 1966, was approximately four and a half million persons, of which slightly less than a quarter of a million were white.[1]

"The remains of Stone Age cultures dating back 500,000 years have been found in Rhodesia . . ."[2] The last of the surviving original races

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[1]Ministry of Information, Immigration and Tourism, Rhodesia in Brief, Salisbury: Government Printer, April, 1967, p. 3.

[2]Karl G. Bruchmann, "Rhodesia," in Encyclopedia Britannica, Vol. 19, Chicago: Encyclopedia Britannica, 1967, p. 277.

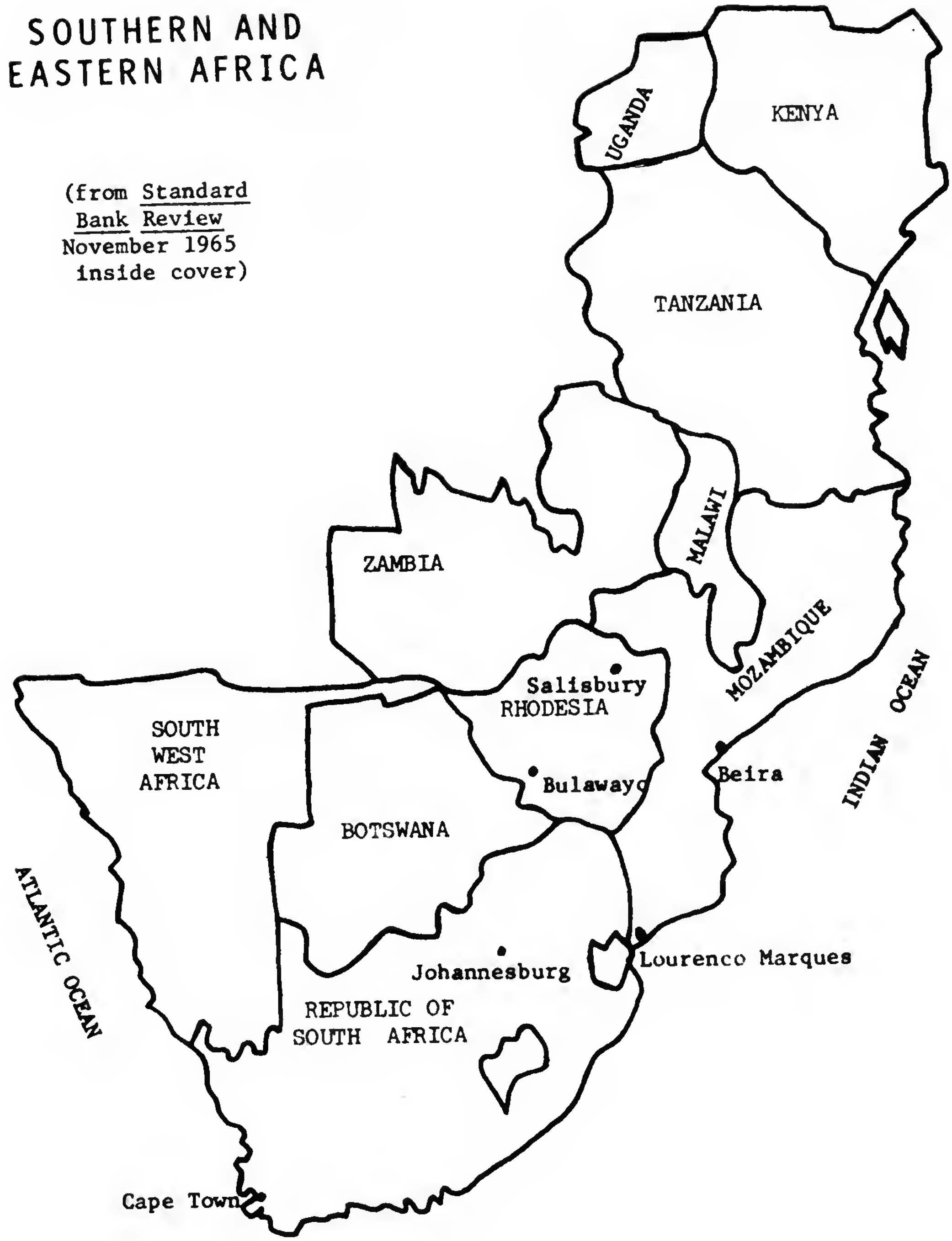

Figure 3. Southern and Eastern Africa

Source: From Standard Bank Review, November, 1965, inside cover.

were probably driven into the Kalahari Desert by large inflows of the Bantu tribes, the first Bantus likely to have arrived between the 5th and 10th centuries A.D. The Portuguese were the first Europeans to enter the area, penetrating the east coast of Africa in the early 1500's; however, few successes in exploration and colonization were achieved. Apart from some meager records of the Portuguese, little is clearly known concerning the history of the area prior to the 19th century.

Beginning in the second quarter of the 1800's another large movement of Bantus into the region began. The Matabele, a Bantu tribe, established themselves within the present boundaries of Rhodesia. At the end of 1859 the first permanent white settlement was established. The London Missionary Society sponsored the settlement and in 1870 secured permission from the tribal leaders for another mission.

The mineral potential of the area made it attractive to outside powers and both the British and the Portuguese laid claim to the area. In 1887, Cecil Rhodes, the British High Commissioner at the Cape Colony, sent an emissary to the tribal chieftains. This led to the granting (in 1888) of all mineral rights in Matabele territory to the British. Known as the "Rudd Concession," the arrangement resulted in the formation, by royal charter, of the British South Africa Company, whose purpose was the promotion of trade, development, colonization, and administration of the area.

In 1891 an Anglo-Portuguese agreement was signed which fixed the boundary with Mozambique and ended Portuguese-British antagonisms over the region. Colonization was begun, but difficulties between the settlers and the Matabele existed. In 1893 the Matabele took up arms and

were defeated only after strenuous fighting. The British South Africa Company then assumed administrative control of Matabeleland. In 1896 fighting again broke out, with peace finally being secured in 1897, in part due to the efforts of Cecil Rhodes who went unarmed to a meeting of tribal chiefs and persuaded them to accept a peace settlement.

The ensuing peace allowed for a concentration of efforts in the economic sphere. Rhodesia's relatively high elevation made the climate attractive to Europeans. Thousands of white settlers came to the region and by 1909 gold exports were valued at over £2 million. Significant progress was made in the area of transport and communications, the railroad from the Portuguese city of Beira reaching Bulawayo in 1896 and Victoria Falls in 1904. Later, an outlet to the sea via railroad to the Cape was also opened.

The Company's original period of rule expired in 1914, but the Charter was extended another ten years. The settlers had been given the choice of either joining the Union of South Africa or continuing the Company's charter pending the grant of self-government. The latter option was taken. After World War I, which had interrupted the drive for local autonomy, pressures for full self-government became quite strong. In 1922 a referendum again rejected incorporation into the Union of South Africa. The next year witnessed Southern Rhodesia's[3]

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[3]The terms "Rhodesia" and "Southern Rhodesia" will be used interchangeably. In 1895, after the defeat of the Matabele armies, two Rhodesias, one north and one south, were formally established. Southern Rhodesia is the region under study, while Northern Rhodesia, today called Zambia, will only peripherially be mentioned.

formal annexation by the Crown and the beginning of its status as a self-governing colony within the British Empire.

An understanding of Rhodesia's historical autonomy and independence is vital for a full appreciation of the political problems which led to the unilateral declaration of independence (UDI) in 1965. Southern Rhodesia always enjoyed a rather unique relationship to the Crown. Mr. Herbert Bowden, in a speech to the House of Commons on December 7, 1966, described the situation as follows:

> The present problem goes back over many years during which time Britain has had the responsibility for Rhodesia but without power. Since 1923, when Rhodesia formally became a colony, while we have had certain constitutional powers connected with the government of that country, we have had no civil servants, nor have we had any army, on the spot. This is fundamentally different from the position in other colonies.[4]

"Close British control of this largely self-sufficient country . . . was never either welcome or strongly asserted."[5] During the 30-year period between the inception of self-government and federation (in 1953) with two other British colonies, both the number of white settlers and their spirit of independence grew steadily. As Perham suggests,

> British authority was minimal in internal affairs. Its most important manifestation was the reservation for imperial assent of bills affecting native interests. This feeble device, employed partly to meet humanitarian demands, had already shown itself of little use in New Zealand and in Natal. In Rhodesia this veto was never once used . . . . But the very existence

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[4]See speech of Herbert Bowden, printed in British Information Service, Policy Statements: Rhodesia, December 8, 1966.

[5]J. E. S. Fawcett, "Security Council Resolutions on Rhodesia," in British Year Book of International Law, 1965-66, H. Waldock and R. Y. Jennings, editors, London: Royal Institute of International Affairs, 1968, p. 102.

> of this curb, however nominal, chafed the increasingly independent spirit of the White Rhodesians. . . .[6]

Thus, in Rhodesia the tradition of self-government by whites, with only mild theoretical, and almost no practical interference from Britain, became the rule of life. As would be expected in such a situation, there evolved a highly privileged political and economic status for the white society, to the detriment of the African majority. Indeed, the Lands Apportionment Acts of 1936 and 1941 allocated only 50,000 square miles to the more than 2.5 million Africans, while 75,000 square miles of economically superior land were alloted to only 215,000 Europeans.

Such policies seemed bound to evoke considerable African opposition, although surprisingly, the African nationalist movement was slow to emerge in the general area and did not become meaningful until after World War II. However, the British Commonwealth concern for the rights and humanitarian treatment of natives on occasions made itself felt in Rhodesia. Several other white settlements had wished Rhodesia's autonomy, but the fear of discriminatory treatment of the African made Britain resist such demands. In 1929 the British government issued statements asserting essential political and economic rights of Africans and laying down the proposition that Africans should ultimately share in the government of their territories.[7] While these "Black Papers," as they were

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[6] Margery Perham, "The Rhodesian Crisis: The Background," International Affairs, January, 1966, p.2.

[7] Memorandum on Native Policy in East Africa, Cmd. 3573, London: HMSO, 1930, and Statement of the Conclusions as regards Close Union in East Africa, Cmd. 3574, London: HMSO, 1930.

called by the white settlers, dealt specifically with British East Africa and not the more central areas, whites in the Rhodesias were upset and angered. The possible rise of the socio-economic and political status of blacks in surrounding lands posed a threat to the status quo. It seemed useful for Rhodesia and Northern Rhodesia, more directly controlled by the Crown, to merge in a sort of defensive alignment against the intrusion of socially disequilibrating and dangerous ideas. In 1939, however, "the Bledisloe Commission . . . decided that the differences in native policy between Southern Rhodesia and the Colonial Office dependency of Northern Rhodesia were too great to allow of immediate amalgamation."[8]

The external threat of new ideas propagated in London simply piqued Rhodesian desires for even greater autonomy. This was further stimulated by Whitehall's veto of amalgamation with Northern Rhodesia. These fears concerning native policy and the increasing economic interdependence between the two areas resulted in unceasing efforts by the white settlers for some kind of union. Rising African nationalism in the less European-populated areas of Northern Rhodesia and Nyasaland pressed whites on in their efforts. In 1953 Britain agreed to a union of three territories, the two Rhodesias and Nyasaland, forming the Federation of Rhodesia and Nyasaland. Control effectively rested with the whites of Southern Rhodesia.

In retrospect it is difficult to see what expectations Britain could have had concerning the success of the Federation. Perhaps they

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[8]Perham, p. 5.

had none, but simply bowed to certain pressure groups. Racial problems seemed bound to create serious difficulty as the total population was divided into roughly 300,000 relatively prosperous whites, the bulk of whom resided in Southern Rhodesia, and 8 million Africans. Overlapping political jurisdictions also created serious problems. Perham succinctly describes the difficulties as follows:

> Even apart from the question of native policy, a political structure in which five governments were expected to keep in step, and in which two territories were responsible to London and two, in effect, to the local white settlers, was hardly likely to interlock very smoothly . . . the Colonial Service officials, with their expatriate status and principles, became objects almost of hatred among Southern Rhodesians striving to create a local patriotism.[9]

A system of dual voting roles maintained European political domination, while the Federation's pseudo-franchised blacks witnessed the growth of African self-rule in other areas of the continent. In addition to this basic power structure imbalance, economic factors played a role in the Federation's eventual break-up. Despite the economic interdependence of the three territories, the bulk of the development and industrial growth which occurred during federation was concentrated in Southern Rhodesia. Thus, both unequal participation in government and economic inequalities led to increased African dissatisfaction. Encouraged by the many newly independent African states, local leaders pressed for the establishment of the "one man, one vote" principle. The white community, being the small minority that it was, feared that such a principle would result in the destruction of its positions and wealth. Thus, whites became increasingly intransigent to African demands.

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[9] Ibid., p. 6.

During the federal elections of 1958 African nationalist leaders effected a successful boycott of the election by African voters. Tensions rose and widespread rioting broke out in early 1959.

The basic problems of the Federation led to the appointment by the British government of a study commission to investigate and possibly reform the Federation. The commission's report, released in 1960, recommended that local self-government be extended to all three territories and that secession from the Federation be allowed, if a territory so wished. In 1963 the right of secession was formally granted by Britain; Nyasaland, having just acquired self-government, declared its desire to withdraw. The Federation was formally dissolved at the end of 1963, with Nyasaland later becoming the independent state of Malawi, Northern Rhodesia becoming the independent state of Zambia, and Rhodesia maintaining its traditional status within the British Commonwealth, Despite the break-up, certain common services and economic activities remained.

Far in advance of the official dissolution of the Federation, negotiations for a new Rhodesian constitution had begun. In 1961 a new constitution was approved in a referendum of Rhodesia's (largely white) voters. The Rhodesians considered this as a big step towards independence, although the British, despite a further limitation of their practical powers, never considered it to be "an independence constitution."[10] After the dissolution of the Federation, Rhodesians quite naturally wanted their own independence and pressured Britain

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[10] Bowden, ibid.

accordingly. Negotiations dragged on over a period of two years, the crucial issue being the British insistence that firm guarantees of progress toward majority rule be given before independence could be granted.

The Rhodesian Economy

During the first two decades of the 1900's the influx of population attracted by the Rhodesian mining industry had created a significant demand for a wide variety of other products, most particularly food and related goods. Farming began to develop as a major economic activity, while other commercial undertakings became centered in the growint towns of Bulawayo and Salisbury. Considerable economic growth occurred until the 1930's when a general stagnation prevailed.

Tobacco was introduced to Rhodesia in 1910 and has since become the major product in terms of value. Corn, however, was the pioneer crop and remains important as a product for local consumption, whereas tobacco is essentially for export. The cattle and dairy industries are also significant. In general, agriculture is fairly well diversified, although production for export has concentrated efforts in particular crops. The following quotation briefly highlights other segments of Rhodesian agriculture:

> In the Sabi River valley, cotton is grown with some success, recent yields having exceeded 2 million pounds, and in the east, tea production is steadily growing. Self-sufficiency in sugar was achieved in 1962, and the growing of vegetables was encouraged by heavy duties on imports. Although there are periodic meat shortages in Southern Rhodesia, the colony is self-sufficient in milk and other dairy products. Citrus fruits are raised

> largely for the local market, although some are exported. Peanuts are grown extensively by Africans.[11]

The bulk of the cash crops are grown by white farmers, for a long time there having been restrictions upon Africans in this area. African farmlands are inferior to those of the whites and much more densely populated.

Industrialization on a significant level had not taken place prior to World War II, perhaps chiefly due to the lack of sufficient internal demand. Inasmuch as the large number of Africans constituted an economic minority, based upon a subsistence agriculture which for a variety of reasons had tended to deteriorate, the white community in and of itself was not able to support much industrial development. Hence, needed manufactures were imported. World War II, however, acted as a great stimulant, pushing a stagnating economy back to its feet.

> Goods previously imported became practically unavailable, thus creating a demand for local industries; chrome and asbestos assumed strategic importance; world shortage of agricultural produce provided a rapidly growing outlet for farmer's output . . . an air training scheme was implemented in the country, in association with the British Government . . . Imperial expenditure on the scheme alone almost equalled the indirect benefit which the country derived from its entire gold-mining industry.[12]

As the war-induced stimulii dissipated in the postwar period, a new external stimulus--the world shortage of raw materials accompanied by the dollar shortage--maintained high levels of domestic economic activity. In particular, "tobacco production . . . was greatly

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[11] Harm J. de Blij, A Geography of Subsaharan Africa, Chicago: Rand McNally and Company, 1964, p. 149.

[12] Giovanni Arrighi, "The Political Economy of Rhodesia," New Left Review, September-October, 1966, pp. 44-45.

stimulated by the limitation of dollar expenditure by the United Kingdon . . . ."[13] Tobacco output tripled over the 1945-1958 period, while the value of output increased fourfold. A further influx of Europeans occurred, resulting in buoyant internal demand for manufactures and agricultural output as well as particularly booming conditions in the construction industry.

By the 1950's there emerged a significant urban manufacturing sector, one whose composition evidenced increasing concentration. Concommitant with this development was the emergence of a white, urban manufacturing class. In this manner there was created a group somewhat distinct from the rural, white agriculturists who had previously dominated Rhodesia's power structure. Net industrial output probably quadrupled over the 1946-1956 period, with metal manufacturing accounting for some of the largest output gains. Geographically, the food manufacturing and processing industry is centered in Salisbury and Bulawayo, tobacco in Salisbury, and textiles and clothing in Bulawayo and Gatooma.

> Other industries founded upon agricultural products are the manufacture of beverages, the refining of sugar . . . the greatment of forest products, the milling of paper, and the like. Compared with other territories of Subsaharan Africa (with the exception of South Africa) the development of manufacturing in Southern Rhodesia is far advanced. Employment in industry has trebled since the end of the war, and additional industries such as car-assembly plants, breweries, and an oil refinery are under construction [now completed].[14]

This growth of urban manufacturing also created a demand for unskilled labor, which was and is filled by Africans as the general rule. However, the stability and reliability of African labor, particularly in urban

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[13] _Ibid_., p. 45.

[14] de Blij, p. 151.

employment, is rather low and this factor, along with several others, resulted in the demand for other inputs increasing even more rapidly.

The sectoral origins of Rhodesia's gross domestic product for 1954-1964 presented in Table 39. Agriculture continues to be the single most important sector, followed by manufacturing, distribution, transport and communications, mining and quarrying. Tobacco is by far the leading agricultural product. Other farm products of commercial importance are meat, sugar, cotton, tea, and peanuts. The major subsistence crops are corn, millet, and sorghum. The major industrial products are metals, food processing, textiles, clothing and footwear, beverages and tobacco, and chemicals. In the mining sector, Rhodesia in 1965 was the world's third largest producer of asbestos as well as a significant producer of chrome ore. In addition, gold, copper, coal, iron ore, and tin are also produced.

The Rhodesian economy is a broadly based one. Thus, while several sectors stand out in importance, the nation is far from a "one-crop" status. Although on a per capita basis Rhodesia is a poor country, the income per head in 1964 being approximately £76, this figure conceals more than it reveals due to the great inequality in income distribution. The Rhodesian economy is a dual one, comprised of a developed, monetized sector and a subsistence economy based on primitive agriculture. "Less than 10 per cent of the African population of 4 million are employed as wage earners in the modern sector."[15] Within the monetized

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[15]Robert B. Sutcliffe, Sanctions Against Rhodesia, London: Africa Bureau, January, 1966, p. 1.

TABLE 39

INDUSTRIAL ORIGIN OF RHODESIAN GROSS DOMESTIC PRODUCT
1954-1964

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
					(£millions)						
Agriculture	38.3	39.7	46.1	47.0	46.7	50.7	51.7	61.8	62.0	63.8	67.7
Mining and quarrying	14.5	15.7	16.7	17.5	17.6	17.2	19.1	18.7	17.0	15.8	16.9
Manufacturing	24.6	26.8	30.1	35.8	38.8	41.8	45.4	49.5	51.8	51.2	54.3
Building and construction	13.2	15.5	17.9	23.1	23.7	21.3	20.7	16.7	15.1	13.9	13.5
Electricity and water	4.0	4.6	5.5	6.4	6.8	7.3	10.4	12.2	12.3	13.2	13.7
Distribution	23.4	27.0	29.6	32.4	34.3	36.8	39.9	39.9	40.1	40.9	41.5
Banking insurance and finance	1.9	1.3	2.0	2.7	3.8	4.4	3.9	3.6	3.8	4.1	3.9
Real estate	3.1	3.7	4.3	5.4	6.2	6.3	6.7	6.5	7.0	6.6	7.1
Ownership of dwellings	4.8	5.4	6.4	7.1	7.9	8.3	8.6	9.4	9.8	10.3	10.4
Transport and communication	12.3	14.8	17.3	20.2	19.3	23.5	25.8	25.4	25.6	28.7	30.9
Public administration and defense	6.5	7.3	8.0	9.7	11.0	11.4	12.2	13.7	14.6	15.6	14.6
Education	3.3	3.8	4.3	5.5	6.1	6.9	7.6	9.0	9.9	10.6	11.0
Health	1.5	1.8	2.0	2.1	2.3	2.3	2.5	2.7	2.9	3.6	3.6
Domestic services	5.5	6.1	7.0	7.5	8.1	8.5	8.9	9.4	9.8	10.1	10.5
African rural household services	2.6	2.7	2.8	2.8	2.8	2.9	3.2	3.3	3.2	3.9	4.2
Services, other	8.4	10.0	11.7	13.7	14.5	15.4	16.0	16.5	17.4	16.5	16.7
Gross Domestic Product[a]	167.9	185.9	212.1	238.6	250.1	264.9	282.4	298.4	302.0	309.1	320.4

[a]Figures will not necessarily add to totals because of rounding.

Source: Standard Bank Review, April, 1966, p. 39.

sector, the average income of employed whites exceeded Ł1,250 and was more than ten times the corresponding figure for Africans in the modern sector. In this regard, it is of interest to note that the average earnings of whites in Rhodesia were considerably higher than the corresponding incomes of whites in neighboring South Africa.

The structure of Southern Rhodesia's labor force is such that the breakdown according to skilled, semiskilled, and unskilled labor may practically be viewed on a racial basis. As with other sectors of Southern Rhodesian society, a sharp color bar divides the industrial labor force. Skilled work is performed almost exclusively by white, and unskilled by Africans. Africans do participate in semiskilled jobs as do the remaining nonwhites, such as Asians. Africans have been barred from membership in European trade unions, while their own do not enjoy the privileges of collective bargaining. Both these factors coupled with others related to the industrial color bar have retared the development and productivity of black labor. Therefore, despite the very substantial growth in the economy's industrial base, very few African workers improved their job status. Although some whites have openly expressed a fear that they may be displaced by the low wage Africans, this is essentially a rationalization. Tow's comments well describe the white worker's position.

> For the most part, it is not the loss of jobs they fear, for they know that the economy is growing fast enough to absorb all of the skilled Europeans available for employment. Rather, it is the loss of exclusive title to certain economic and social strata.[16]

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[16]Leonard Tow, The Manufacturing Economy of Southern Rhodesia, Washington, D. C.: National Academy of Sciences, 1960, p. 102.

This kind of racial discrimination, of course, is highly uneconomic as socially disequilibrating in the long-run.

Arrighi has suggested four categories of the Rhodesian political structure which are based on the economic substructure of the nation.[17] The first, representing international capital, is comprised of the managers of Rhodesian subsidiaries of foreign corporations, primarily engaged in the foreign trade sector, particularly production for export. "In 1960 about half of total company profits earned in Rhodesia accrued to firms not domestically controlled, although the proportion may have fallen since then . . . ."[18] In terms of economic importance, then, this group is highly significant. However, the political importance of this category--a group upon whom sanctions may weigh quite heavily--has declined.

A second category--domestic capital--is comprised of local entrepreneurs and businessmen, a group which developed rapidly during the Federation years in response to the enlargement of protected markets for manufactured goods. The political importance of these individuals is difficult to weigh, but seems to be increasing. Their response to sanctions will in large measure depend upon their abilities to shift production from the export markets of Zambia and Malawi to import substitutes.

The farmers, numbering about 6,000, comprise a third category. Although their numerical importance is small (in total electorate of

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[17] New Left Review, September, 1966.

[18] Timothy Curtin and David Murray, Economic Sanctions and Rhodesia, London: Institute of Economic Affairs, 1967, p. 14.

100,000), their influence is far greater than their numbers. The tobacco farmers in particular will be harmed by the sanctions, although again the net response of this group will in large measure depend upon the success of their diversification efforts.

Category four, the last subgroup, encompasses employees and others, and comprises by far the vast majority of white Rhodesians. Under the 1965 constitution, this group is nominally the basic source of political power within the electorate. Table 40 provides a breakdown of African and non-African[19] employees by sectors in Rhodesia in 1965. The relatively small number of non-Africans engaged in agriculture and mining, the chief export sectors, should be noted as these are the groups most directly susceptible to sanctions. Of course, manufacturing is also export-oriented to a significant degree. The response of this group--employees--is not particularly clear, but may become of major importance as time passes.

Table 40 also indicates the relative numerical importance of African and non-African employees. The dominance of the African majority is immediately obvious, this group being roughly seven times as large as the non-African. Their heavy concentration in the export-related sectors--agriculture, mining, and manufacturing--should also be noted.

A relatively unique characteristic of the African labor force in Rhodesia is that generally less than half have been indigenous, with

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[19] Non-African is a more appropriate term than "white" as in addition to Europeans there are a small number of Asians and other non-African groups generally statistically identified with the European element. In this dissertation, however, "non-African" and "white" will generally be used interchangeably.

TABLE 40

NON-AFRICAN AND AFRICAN EMPLOYEES IN RHODESIA, 1965

	Non-African	African
	(in thousands)	
Agriculture and Mining	7.2	314.0
Manufacturing	16.0	68.9
Distribution	18.3	30.2
Transport	10.3	16.8
Public Services	18.1	48.9
Banking, Insurance and Finance	6.0	2.0
Other	13.1	53.5
Totals	89.0	534.3

Source: Curtin and Murray, p. 19.

the bulk generally coming from surrounding areas, particularly Nyasaland (Malawi), the Portuguese territories of Mozambique and South West Africa, and secondarily from Zambia and other sections of Africa. The trend, however, was toward an increasing percentage of local Africans to be employed. So strong was the dependence upon extraterritorial labor that the Rhodesian government had provided free transport and other facilities for the purpose of moving these workers and their families to and from needed employment centers. Whereas in the past this labor had been actively recruited, by the 1960's African labor had become redundant and the policy attracting workers ended.

While non-African unemployment rates have been extremely low, the same cannot be said for the African group, in which unemployment has become an increasingly serious problem. In fact, the pre-UDI prospects for African unemployment and standards of living were not bright, as a 1964 study reveals.

> Although the downward drift in African employment in Southern Rhodesia will probably be halted in the near future, the ensuing rise will be of negligible proportions and certainly well below the estimated increase in the adult male population . . . . Between now and 1970 the increase in the number of African adult males will be of the order of 20,000 per annum. Even if net African emigration continues at its present rate of about 10,000 per annum (and as the number of foreign Africans in employment in Southern Rhodesia declines, the emigration rate can also be expected to fall) this still leaves an extra 10,000 jobs to be found each year for the indigenous population. This is less than the average annual increase between 1954 and 1959: but Southern Rhodesia enjoyed unusually favourable conditions during this period.
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> We must conclude that . . . Southern Rhodesia will face either a growing volume of urban African unemployment or a gradual deepening of poverty in the African peasant farming sector.[20]

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[20] D. S. Pearson, "Employment Trends in a Developing Economy: The Case of Southern Rhodesia," East African Economics Review, June, 1964, pp. 72-73.

During the ten years of Federation Rhodesia's economy was marked by uneven, yet impressive growth. As the Federal capital, Salisbury in particular experienced a great boon during the 1950's. However, toward the end of Federation in the early 1960's, stagnation and even declines were registered due to political uncertainties and the concommitant apprehension in business circles as well as adverse movements in the terms of trade. It had been anticipated that the break-up of the Federation would witness continued economic hardship for Rhodesia; however, in the first year after the dissolution "the real growth rate improved to 2.9 per cent from one per cent in 1963, while in 1965 it was 4 1/2 per cent."[21] Perhaps more importantly, 1965 was the first year in the decade in which real output increases surpassed population growth. Thus, the post-Federation period witnessed a revival of the Rhodesian economy rather than continued stagnation.

It might be mentioned that one indicator of economic conditions in Rhodesia has traditionally been the migration rates of non-Africans. Large inflows are positively correlated with prosperity while declining inflows or net emigration with recessed economic conditions. In 1956, a year of particular prosperity, the net inflow probably reached 13,000. As economic conditions worsened, emigration increased and immigration fell. "Between 1961 and 1964 there was a net loss of 12,656, reflecting the outflow, especially of Europeans, that coincided with the dissolution of the Federation. 1965 was the year of recovery with a net gain of

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[21]Hawkins, p. 44.

4,469."[22] The significance of immigration and emigration with respect to economic sanctionism is important and will be discussed shortly.

International trade has played a very important role in Rhodesia's economy. Unfortunately, during the years of federation separate trade statistics were not kept for each of the three nations. In general, close to 50 percent of the Federation's exports went to the United Kingdom, while approximately 37 percent of total imports came from that source. South Africa provided about 34 percent of the Federation's imports and absorbed 6 percent of the exports.[23] With the break-up of the Federation, it had been expected that Rhodesia would face balance of payments difficulties because the loss of markets in Zambia and Malawi; however, these markets remained significant and the visible trade balance has been favorable in the post-Federation years. Exports in 1964 earned about 38 percent of the national income while 34 percent was spent on imports[24]--both very high figures. The commodity composition of exports is presented in Table 41. The bulk of Rhodesia's exports were raw materials, the major item being tobacco which accounted for roughly 31 percent of the total value of exports in 1964. Mineral exports reached almost 22 percent. Individual items of importance in addition to tobacco were gold, copper, asbestos, sugar, apparel, and various manufactured goods. Rhodesia's exports are unevenly distributed during

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[22] Ibid., p. 45.

[23] Herbert J. Spiro, "The Rhodesias and Nyasaland," in Gwendolen Carter, editor, Five African States, Ithaca: Cornell University Press, 1963, p. 387.

[24] Sutcliffe, p. 2.

TABLE 41

RHODESIAN EXPORTS
1964-1965
(INCLUDING GOLD SALES)

	Jan.-Sept. 1964	Jan.-Sept. 1965	1964
	(£,000)		
Gold	5,285	5,041	7,086
Refined Copper	2,976	4,105	3,552
Tin	396	390	565
Asbestos	7,160	7,050	10,015
Chrome ore	2,005	2,640	2,500
Coal	1,179	1,542	1,657
Ferro-Chrome	1,418	1,266	1,833
Pig Iron	2,134	2,067	2,550
Sugar	2,675	2,580	3,680
Tobacco	29,030	33,434	39,221
Maize	94	266	350
Wattle extract	349	428	724
Cattle hides	412	504	539
Meat (fresh, frozen and chilled)	2,369	3,013	2,992
Other meats	1,918	1,907	2,050
Cigarettes	1,264	1,023	1,765
Footwear	1,145	1,324	1,558
Apparel	4,022	4,374	5,422
Radios and parts	1,148	1,555	1,726
Motor cars and trucks	1,422	2,437	2,213
Tires and tubes	712	847	972
Ale, beer and stout	319	611	461
Timer (rough, sawn or machined)	662	666	902
Lithium ore	436	304	543
Paints	425	357	551
Soap and detergents	687	723	953
Fabrics in the piece	842	1,044	1,175
Blankets	371	512	427
Steel ingots and billets	557	323	643
Steel bars	464	631	588
Copper bar and rod	776	298	956
Structural steel	651	533	1,029
Furniture (metal and wood)	434	631	588
All other commodities	17,706	24,256	24,815
	93,443	108,729	126,551

Source: The Standard Bank Review, January, 1966, p. 37.

the year, usually reaching a peak sometime after mid-March when two major crop exports, tobacco and sugar, begin on a large scale. "The period of lowest ebb in Rhodesian exports begins in mid-November,"[25] no doubt an important factor in the timing of Prime Minister Smith's UDI.

Table 42 provides a breakdown of Rhodesian imports, which totaled almost £17 million.[26] Machinery, transport equipment, chemicals, petroleum, foodstuffs, and miscallaneous manufactured items were the major imports. A relatively high proportion of imports were of luxury manufactures, although the importance of machinery, spare parts and raw materials should not be discounted. Prior to March, 1965, most petroleum was imported in refined form; however, after that date a refinery began operation in Rhodesia on a scale sufficient to serve the needs of both Rhodesia and Zambia.

Table 43 indicates the direction of Rhodesia's foreign trade for 1964, probably a representative year. The United Kingdom was the major trading partner, providing 30.4 percent of Rhodesia's total imports while absorbing 25.5 percent of all exports. Excluding Rhodesian gold sales, the trade balance with Britain was adverse to Rhodesia by £3 million. South Africa was the second leading supplier for Rhodesia, although as a customer for Rhodesian exports that nation absorbed only

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[25] Ibid., p. 2.

[26] The actual trade surplus was probably higher due to certain items which seem to have escaped enumeration in the Standard Bank Review. Thus, Hawkins reports the trade surplus to be £32.3 million (p. 45) and Sutcliffe in one place (p. 3) puts it at £33.5 million, although this contradicts his own figures on the previous page, ones which correspond to those presented above.

TABLE 42

RHODESIAN IMPORTS
1964-1965

	Jan.-Sept. 1964	Jan.-Sept. 1965	1964
	(£,000)		
Food	7,808	7,095	9,700
Beverages and tobacco:			
Unmanufactured	2,565	2,409	2,774
Other	689	555	961
Crude materials	3,928	3,704	5,467
Mineral fuels	4,657	4,299	6,187
Oils and fats	412	886	556
Chemicals	8,397	9,958	11,516
Manufactures classified by materials	21,134	24,073	28,063
Machinery and transport equipment	23,347	28,245	31,240
Miscellaneous manufactured articles	7,739	8,601	10,653
Miscellaneous transactions	1,880	2,091	2,578
	82,556	91,916	109,695

Source: The Standard Bank Review, January, 1966, p. 37.

TABLE 43

DIRECTION OF RHODESIAN FOREIGN TRADE
1964

Country	Exports to:	Imports from:
	(expressed as a percentage of totals)	
United Kingdom	25.5	30.4
Australia	1.3	2.2
India	0.9	0.8
South Africa	7.5	24.4
Zambia	25.8	4.9
Malawi	4.7	1.5
Bechuanaland	0.9	0.3
Hong Kong	0.4	0.5
USA	3.3	6.8
Canada	1.2	1.4
France	0.6	1.5
West Germany	6.6	3.9
Netherlands	1.9	2.2
Italy	1.1	1.9
Other European Countries	6.0	4.1
Mozambique	0.6	1.3
Other Portuguese Africa	0.1	0.1
Congo	1.3	0.0
Other African Countries	1.3	0.3
Japan	4.7	4.0
Soviet Bloc	0.8	0.4
Other Countries	3.5	6.4
Parcels under £10	--	0.4

Source: Sutcliffe, p. 3.

7.5 percent. The trade balance with South Africa was quite unfavorable. However, the Zambian market purchased roughly one-fourth of Rhodesia's exports, while Rhodesian imports from Zambia were a relatively small amount. The United States was a distant third as a supplying nation, and ranked seventh as an export market, following Zambia, the United Kingdom, South Africa, West Germany, Malawi, and Japan.

In general, Rhodesia has had deficits in the invisibles section of the balance of payments accounts, with major deficits in freight and transport expense and investment income. Tourism in the past had been an important earner of foreign exchange. Finally, in 1964 the nation enjoyed a net inflow of long-term capital. Sutcliffe summarizes the balance of payments situation as follows:

> If 1964 is considered a normal year then Rhodesia's pattern of international payments is seen to be very nearly in balance without the necessity for foreign loans or for running down the reserves.[27]

During 1965 the economy continued to grow, the increases for both 1964 and 1965 being largely export-generated, the value of exports increaing in 1965 by 20 percent.[28] That year also witnessed an increase in investment and a long overdue recovery in the building trades. The Gross Domestic Product was Ł328.0 million in 1964 and rose to Ł352.8 million in 1965, despite a decline in the agricultural sector.[29] Rhodesia's economy, then, had emerged from a period of stagnation and

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[27] Ibid., p. 4.

[28] Hawkins, p. 46.

[29] H. C. P. Andersen, Rhodesia: A Field for Investment 1967, Salisbury: H. C. P. Andersen, 1967, p. 29.

was in the midst of a rather vigorous expansion in the post-Federation years. The economy is diversified, had been enjoying growing internal demand and appeared to have a bright future prior to the political difficulties which arose. It is, then, against this background that sanctions were first imposed in late 1965. It should perhaps also be noted that prior to UDI there had been an amassing of stocks and inventories of imports in anticipation of some kind of economic sanctions.

Political Pre-Conditions to Sanctions

As has already been indicated, the Rhodesian drive for complete independence was very strong. The new constitution of 1961 further limited the Crown's authority, although the latter retained the right to reject certain Rhodesian actions affecting matters in which the Crown deemed itself sovereign. Negotiations for complete independence dragged on for over two years, Sir Alec Douglas-Home's Conservative government insisting that independence could come only after firm guarantees of progress toward majority rule. The Wilson government which came to power in October, 1964, reiterated the British position. Perhaps anticipating possible unilateral action on the Rhodesians' part, Wilson on October 27, 1964, declared that the decision to grant independence rests solely with Britain and its Parliament and that any declaration of independence by the Rhodesians would be illegal and constitute rebellion and treason. Wilson enumerated five principles which had to be satisfied before independence would be granted.

1. Guarantees of unimpeded progress toward majority rule, as already enshrined in the 1961 constitution;

2. Guarantees against retrogressive amendment of the constitution;

3. Immediate improvement of the political status of the African;

4. Progress toward the cessation of racial discrimination;

5. The proposed basis for independence had to be acceptable to people of Rhodesia as a whole.

The subsequent political oppression, of both whites and blacks who differed with the Rhodesian regime, later led to the addition of a sixth principle.

6. Regardless of race, there must be no oppression of majority by the minority or vice versa.

Negotiations finally broke down, the Rhodesian Prime Minister, Ian Smith, having left London on October 11, 1965. One month later, despite great pressure from Britain, the United States, and other sources, Rhodesia made a unilateral declaration of independence (UDI), or illegal declaration of independence (as the British government refers to it).

This determination in the face of great pressure can only be understood in light of Rhodesian attitudes and fears concerning majority rule. It is this very determination which has so far maintained the Smith regime and Rhodesian morale in general in the face of more than three years of economic sanctions. The white minority is very prosperous and enjoys a highly privileged position as a rule. It is only natural that they would be opposed to a change in the status quo. On top of this, however, is the more serious fear of losing perhaps everything they have worked for and maybe even their lives. They view their achievements and those of their parents with great pride. A wild and untamed land was conquered and civilized. White Rhodesians generally

feel nothing but scorn for what they consider to be Britain's surrender to African violence in other areas of the continent. "It is the disorders, the rejection of democracy and the violent speeches of many African leaders which disgust, and to some extent alarm, many Rhodesian Europeans."[30] They do not believe that many of the new African states are democracies, but rather typical dictatorial or one-party systems in which both the rulers and the ruled share the same skin color. For Britain to grant these areas independence long before they are ready, while at the same time denying it to Rhodesia which has shown itself so capable of self-government for so long seems to be the nadir of disgrace. The prospects of majority rule--of African rule--in Rhodesia strike horror to the minds of most whites. As Perham suggests,

> Of all the negative lessons they draw from the stormy prospect to the north, none has been more horrifying than the events in the Congo. If to us the atrocities perpetrated in that country were almost unbearable to read, how much more dreadful they must have been to white people, themselves minorities in the heart of Negro Africa, who watched these bloody events from a place not so many miles away and who saw some of the refugees from the terror arriving in their country.[31]

On November 16, 1965, shortly after the UDI, Britain imposed political and economic sanctions against Rhodesia, which included the cessation of all British aid, the removal of Rhodesia from the sterling area and Commonwealth preference system, and a ban on tobacco and sugar purchases.

The day following the UDI the United Nations Security Council met and in resolution 216 condemned the unilateral action, calling upon all

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[30]Perham, p. 7.

[31]*Ibid*., pp. 7-8.

nations to withhold recognition and render Rhodesia no assistance. On November 20, as a result of a British request, the Security Council again convened and requested all nations to break economic relations with Rhodesia, specifying in particular an embargo on oil and petroleum products. The resolution recognized Britain as the administering power and called upon it to take all steps necessary to end the rebellion. The resolution stated that if the situation was not quickly remedied it would in time constitute a threat to the peace.

In January, 1966, a Commonwealth Sanctions Committee was established to review the effects of sanctions and to suggest measure for the support of Zambia, Rhodesia's norther neighbor which also was bound to be harmed by the sanctions. By early February British imports of all Rhodesian products not previously embargoed (principally manufactured goods) were banned.

The United Nations sanctions of 1965 and most of 1966 were voluntary, with the Security Council requesting compliance. Neither these nor the intermittent negotiations between Britain and Rhodesia succeeded in settling the crisis. On December 16, 1966, for the first time in its history, the United Nations invoked mandatory economic sanctions in accordance with Articles 39 and 41 of the Charter. More specifically, imports of the following Rhodesian products were proscribed: asbestos, iron ore, chrome, pig-iron, sugar, tobacco, copper, meat and meat products, hides, skins, and leather goods. In addition, the supply of arms, aircraft, motor vehicles and equipment for arms manufacture were also banned. Finally, the supply of oil or aid in its transport to Rhodesia was prohibited. The resolution very closely

followed the British request, although some items, most importantly oil, were added by the Security Council. In all its efforts, Britain has emphasized repeatedly that it has no intention to resort to arms to bring down the Smith regime.

By May, 1968, Rhodesia remained independent of foreign influences and showed no signs of bowing to sanctions. In that month the Security Council banned the import of any and all Rhodesia goods by other nations, and at the same time prohibited the sale and/or supply of any goods to Rhodesia (with the exception of medical supplies and humanitarian items). Specific mention was made of states which act as ports of transit for goods destined to Rhodesia. All air transport to Rhodesia was prohibited, the need for the withdrawal of all consular and trade representation was specified, and the Council deplored and censured those nations not abiding by previous UN resolutions. Thus, voluntary sanctions gave way to mandatory selective sanctions and, finally, to mandatory comprehensive sanctions.

Implementation and Maintenance of Sanctions

Despite the multitude of resolutions and declarations, there has been a rather considerable lag in the implementation and effective enforcement of the declared boycotts. These lags have resulted from a variety of factors which merit a brief enumeration.

In the first place, the UN resolutions must be implemented by each individual nation. This, of course, implies that the member states desire to comply with sanctions. Portugal and South Africa stand out as clear exceptions in this regard. Assuming that compliance is part

of an individual nation's policy, there is generally some time lag between the UN resolutions and the enabling legislation in member countries. This lag has been very short in some instances and very lengthy in others. The United States has been most accomodating. Thus, one day after the original British arms embargo, the United States announced its own similar actions. In addition, no 1966 sugar quota for Southern Rhodesia was established, actions on all applications of United States government grants, loans, and credit guarantees relating to Rhodesia were suspended, travel to Rhodesia discouraged, and a host of other measures quickly implemented. After the November 20, 1965, UN resolution it was announced that Rhodesia's sugar quota for 1965 would not be accepted and on December 28 of that year export controls were imposed on the shipment of petroleum and related products from the United States to Rhodesia.

It should, however, be recalled that sanctions were voluntary in the early stages and many member states of the United Nations failed to comply. In addition, West Germany is not a member of the United Nations and although compliance by nonmember countries was requested, its response has been rather slow. Furthermore, most domestic trade control legislation required termination of trade not immediately, but at some future date. Complying nations differed in this regard also. In general, although trade had to be terminated as of a specific date, this referred frequently only to new contracts and did not affect the implementation of preexisting agreements. Inasmuch as there was a great deal of ordering and/or purchasing in excess of the normal volumes of trade in anticipation of sanctions, an effective short-run loophole was thereby

created. Thus, Rhodesian importers tended to order larger than usual amounts and to contract for longer than normal periods. Those regularly purchasing Rhodesian products tended to do likewise. In this fashion, the imposition of sanctions which exempted fulfillment of existing contracts was tantamount to a delay in the effective imposition of the trade controls themselves, however quickly the legislation itself had been enacted. And, of course, to the extent that Rhodesian importers were able to increase their inventories, another delay in the impact of sanctions resulted.

The voluntary nature of many of the original sanctions as well as their limited scope in terms of commodities covered (however vital those goods might themselves be) allowed for the continuation of a good deal of trade. When sanctions became mandatory and finally, comprehensive rather than selective, a tightening of sanctions became noticeable. However, prior to mandatory comprehensive sanctions probably only 60 percent of Rhodesian exports and only 15 percent of normal imports had been banned. In addition, lags and loopholes of the kind already mentioned were prevalent. In the case of the United States, which offered ready compliance, a virtual embargo on all exports to Rhodesia was not enacted until July 16, 1968. This implemented the Security Council's mandatory and comprehensive sanctions of one and a half months earlier. This order did, however, allow that shipments already in transit to or at ports of exit for delivery to Rhodesia would be permitted for 21 additional days. Thus, the lapse between initial sanctions (November, 1965) and a total embargo covered a period of approximately 33 months for the United States alone.

Finally, the ability of the enforcing nations to effectively police their own trade controls is a final factor of note. Again, there are indications that degrees of enforcement varied considerably among the embargoing states.

A more detailed examination of Rhodesia's trade and the effect of sanctions upon its international commerce is not in order. As would be expected, the United Kingdom took the lead in imposing and enforcing the boycott. The fact that this nation was clearly Rhodesia's leading single supplier and at the same time a major export market (approximately 25 percent of Rhodesia's exports in 1964) meant that British sanctions would have considerable impact. As early as February, 1966, an almost total ban on British exports (excepting items for humanitarian and similar purposes and for the essential services which Rhodesia shared with Zambia and Malawi) was in force. Even earlier, approximately 95 percent of all British imports from the rebellious colony had been embargoed. By February 2, 1966, the remaining 5 percent, mainly manufactured items, were banned. Table 44 summarizes the trade sanctions applied by most nations as of January 16, 1966.

In addition to these trade measures, more immediately effective actions were the British financial curbs. On November 11, Prime Minister Wilson announced that all British aid to Rhodesia would be stopped. More importantly, Rhodesia was removed from the sterling area, denied access to the London capital market, and subjected to special exchange control restrictions. Inasmuch as Rhodesia had a considerable sterling balance in London and had frequent recourse to the capital market, a major source of financing was thereby frozen. Some accounts, however,

TABLE 44

SUMMARY OF MOST TRADE SANCTIONS APPLIED AGAINST RHODESIA
JANUARY 16, 1966

Country	Ban on Rhodesian Exports	% of Rhodesian Exports Affected	Remarks
Australia	Tobacco	about 0·5	Exports subject to license
Belgium	Tobacco, sugar	about 1·0	Exports of arms and oil banned. All trade subject to license
Canada	Tobacco, sugar, chrome, asbestos, meat	1·0	--
Denmark) Norway) Sweden)	All goods subject to license	up to 2·0	Exports also subject to license
Egypt	--	--	No use of Suez Canal
France	Tobacco	0·5	--
Greece	--	--	Ban on export of arms
Holland	Tobacco	say 1·0	Ban on arms and oil exports. All trade subject to license
Italy	Tobacco, sugar	negligible	Main import is copper
Japan	Tobacco, pig iron	3·3	--
Jordan	All goods	negligible	All exports banned
Malawi	--	say 1·0	Trade Agreement favourable to Rhodesia ended
Malaysia	All goods subject to exchange control	up to 0·5	May continue to import tobacco All imports subject to control
New Zealand	Tobacco	0·5	--
Pakistan	--	--	About to apply sanctions
Singapore	All goods	negligible	All exports banned
United Kingdom	Tobacco, sugar, chrome, asbestos, copper, meat, tea, maize, vegetables	23·0	Arms exports banned. End of Commonwealth Preference
USA	Tobacco, sugar	about 2·0	Expected to ban chrome and lithium

TABLE 44 (continued)

Country	Ban on Rhodesian Exports	% of Rhodesian Exports Affected	Remarks
Zambia	Non-essential imports	say 10·0	--
USSR	Tobacco	0·2	--
West Germany	Tobacco	4·8	--
Arab League (except Tunisia)	All goods	negligible	Total economic boycott
EEC	--	--	Commission offer to coordinate sanctions
All other OAU countries	All goods	2·8	--

Source: Sutcliffe, pp. 5-6.

were left unfrozen temporarily. No payments in Rhodesian currency were allowed. In December, a second wave of financial measures, all of which aimed at reducing Rhodesia's ability to import, were introduced. It was required that Rhodesian payments for United Kingdom imports had to be made in a limited list of currencies which excluded sterling and the South African rand. For a while some payments of significance were allowed on the nonembargoed trade between Rhodesia and a few sterling area countries which had not yet implemented total trade bans. This later ceased. In addition, pressures upon Switzerland resulted in the blocking of a modest amount of reserves at the Swiss National Bank.

In addition to curtailing Rhodesia's ability to import, a more immediately damaging possibility was the credit squeeze which Rhodesia might suffer. In general, the Rhodesian banking system was overlent against domestic deposits and relied on net borrowing from London. With United Kingdom banking facilities prevented from providing the traditional credit, the Rhodesian banks were forced to call in loans and tighten the money market considerably. The enforcement of tight money in Rhodesia, it was hoped, would result in a decrease in domestic investment. Politically, it was hoped that the tightening of credit would evoke considerable domestic discontent and perhaps pressure the government to negotiate a settlement with Britain. If the Smith government, to avoid tight money, created the credit itself, it was expected that domestic inflation would result. Again, the ultimate benefit would be the arousal of enough discontent to force the Smith regime to its knees.

To what extent has Rhodesia been able to avoid these sanctions via loopholes and leakages? In short, how effective have the sanctions

been in terms of denying Rhodesia access to foreign markets and cutting off external supplies. As already mentioned, South Africa, Portugal, and the Portuguese lands of Mozambique and South West Africa have made no attempt whatsoever to implement any sanctions--indeed, they have been the main avenues of sanctions avoidance.

Zambia had been a major outlet for Rhodesian goods, particularly manufactures, yet one of that country's greatest political foes. However, "long-standing organic links between the two complementary economies cannot be dissolved overnight,"[32] as one expert has commented. Although Rhodesian exports of finished goods declined--this decline becoming progressively greater over time--Zambia's dependence upon Rhodesia has been just too great for a complete severance. Thus, Rhodesian coal from the Wanke mines has been necessary for the Zambian copper industry while Rhodesian railroads were vital for the transportation of this copper to Beira since no economically feasible alternative routes were available. A host of other areas of dependence could be enumerated. In general, advance payment is required by Rhodesia so as to assure its remuneration. The Zambian market probably absorbed some £36.1 million less Rhodesian goods in 1966 than in 1965, although exports in 1966 still probably slightly exceeded £20 million.[33] Sales to Malawi, while not quantitatively as important, are in much the same category. This nation, however, has not taken the same efforts as Zambia in order

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[32]Heinz Portmann, "Rhodesia's Economy Under the Sanctions," Swiss Review of World Affairs, April, 1967, p. 8.

[33]Ibid.

to reduce Rhodesian purchasing. It is, however, an obvious fact that Zambia could not possibly have made much progress in reducing its dependence upon Rhodesian supplies of goods and services without the substantial assistance of the major powers. Vital supplies, such as petroleum, have been airlifted to Zambia; nevertheless, steadily decreasing imports from Rhodesia--down by about 75 percent as of May, 1967[34]--have imposed severe strains upon the Zambian economy, while at the same time depriving Rhodesia in a slow but sure manner of a major export market.

Other nations which have tended to maintain substantial volumes of trade with Rhodesia--despite official declarations to the contrary--have been Japan, West Germany, Switzerland, Belgium, and several other states. The Economist Intelligence Unit closely analyzed the impact of sanctions upon Rhodesia's total trade and its direction, stating the following:

> Voluntary sanctions by Britain and other countries reduced Rhodesian exports by 36 per cent in the first year after UDI. In January 1967 there was a mandatory UN ban covering 60 per cent of normal Rhodesian exports and 15 per cent of normal imports. This barely reduced trade at all but expanded the loophole by which Rhodesian exports came in to world markets clandestinely through South African or Mozambique middlemen. All OECD countries (except Portugal and Switzerland) have reduced direct trade with Rhodesia very substantially since UDI: So has Zambia. A comparison of the trade figures of the importing countries with those of Rhodesia suggests that 80-85 per cent of Rhodesian trade is now done with South Africa or Mozambique or through middlemen in those countries. In June 1968 another UN mandatory resolution came into effect banning all trade with, investments in, and air communications with Rhodesia. But the South African loophole remains wide open.[35]

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[34] Economist Intelligence Unit, Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 18.

[35] Ibid., p. 16.

In the United States, exports to Rhodesia are governed under the Export Control Act. This also means that reexport of American products by foreign purchasers to Rhodesia is prohibited. Although there have been a few reported violations--such as the export to Rhodesia of a cotton gin by a South African firm which had imported from the United States--known violations have been minimal. The company in question in the above instance has lost its right to import American goods.

Sanctions, then, without question have reduced Rhodesia's total exports--by 36 percent in 1966 alone. However, subsequent declines have been minor due to the rechanneling of trade through neighboring nonboycotting nations. Total exports (including gold and reexports) declined from £104.9 million in 1967 to £100.1 million in 1968.[36] "However, in view of the more widespread nominal imposition of United Nations mandatory sanctions during the year, the Rhodesian authorities can probably take comfort that this figure may be the lowest to which existing sanctions regulations can push Rhodesian exports."[37]

Exchange controls and import restrictions were naturally implemented and stringently enforced in Rhodesia when British sanctions were first presented. In addition, domestic rationing of some products--most importantly gasoline--was instituted in order to conserve foreign exchange and economize on scarce resources. Such restrictions, however, have been far from onerous--perhaps annoying or inconvenient are the

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[36] Economist Intelligence Unit, _Rhodesia_, _Zambia_, _Malawi_: _Quarterly Economic Review_, Number 2, 1969, p. 6.

[37] _Ibid_.

most descriptive terms--while supplementary rations are readily available if purchasers are willing to pay the required surcharges. In addition, rationing controls have been eased on occasions.

Under the import quota system instituted, luxury imports are all but impossible. The import quota system is so arranged that import amounts tend to depend upon the foreign exchange situation, i.e., the progress of exports. Four times each year the Treasury in cooperation with the central bank releases statistics on the amounts of foreign exchange available. The Ministry of Trade then allocates this sum among the alternative demanders. Having once obtained the necessary foreign exchange, there are apparently no domestic restrictions upon Rhodesian importers (and exporters) have been able to maintain external contacts via a host of clandestine and shifting means. In the allocation of exchange, there apparently seem to be few opportunities for new importers. This rationing would tend to allow quota profits to importers, which would then become concentrated if entry were barred; however, the government has implemented rules on profit margins on a broad spectrum of goods imported. In addition, if an importer himself does not utilize his license for foreign exchange, it will expire. In this manner a market for licenses--which may result in considerable price increases--has been stifled.

Looking at the trends in imports, from a level of almost £110 million in 1964, they reached £120 million in 1965, the end of that year being the beginning of sanctions. The 1966 total was probably £85-£90 million, rising to £96.4 million in 1967 and in 1968 almost approximating

the level of four years earlier at £107.8 million.[38] One point of significance should be stressed. Rhodesian imports have fallen not so much because of a lack of supply sources, but due to the rationing of foreign exchange. In short, sanctions have not effectively cut Rhodesia from sources of supply if that nation wishes to purchase, for by running down its reserves it is able to obtain almost any and all needed items. This again suggests that effective enforcement of the boycott is lacking. Once respondent in the boycott of Israel survey volunteered the following comments which suggest the impotency of sanctions in stopping trade:

> I have worked 63 years in export/import and have never seen a boycott which was really effective! F. i. [sic] <u>the present boycott of Rhodesia is a farce</u>. [underlining added]

In the Rhodesian situation, export sanctions have been largely avoided via trade of unmarked goods through South Africa and Mozambique, while import sanctions have been almost wholly ineffective. When Rhodesia has wanted to purchase goods, this has been done and it has occurred in almost every market of the world via third party intermediaries. The following statement highlights some of the major loopholes.

> At the end of December the Security Council's sanctions committee (headed by India) issued a general report on Rhodesian trade in which it complained that in spite of the mandatory sanctions resolution, Rhodesia's trade with the rest of the world remained in 1968 "quite substantial". One of its major problems has been to identify Rhodesian trade from the trade statistics of member countries. Many of them (most significantly South Africa) do not list Rhodesia as a separate country for the purposes of their import and export statistics. In spite of this, the report claimed that in 1967 South African imports from Rhodesia were about $80 mn and exports to Rhodesia about $160 mn. Portugal (which also fails to distinguish Rhodesia in its statistics) was reported to have imported $500,000 worth of meat, $2.5 mn worth

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[38] *Ibid*., and Portmann, p. 9.

> of sugar, and $300,000 worth of tobacco from Rhodesia in the first six months of 1968. Among countries which do separately distinguish Rhodesia in their statistics declared imports from Rhodesia fell in 1968 compared with 1967 to the United States, Belgium and Luxemburg, Holland, West Germany and the UK; they rose to Japan, France, Portugal, and Switzerland. These figures however are deceptive in that they represent only declared imports and therefore take no account of those goods from Rhodesia which are rerouted through South Africa, Mozambique and elsewhere under false labels of origin. It looks very much as if existing sanctions regulations by themselves can do little more to reduce Rhodesian exports; it will require far more detailed and energetic police investigation and action before new significant inroads on Rhodesian trade can be made.[39]

Looking at the Rhodesian balance of trade it will be recalled that this balance had been favorable by a substantial amount during 1964. The next year witnessed considerable domestic prosperity and a favorable trade balance of almost Ł42 million. This favorable balance decreased to just under Ł19 million in 1966, and then fell to just above Ł7 million in 1967.[40] When invisibles are added to the picture, the 1965 current account balance was still highly favorable. It was roughly in balance in 1966, but fell to a deficit of almost Ł10 million in 1967. This deficit, however, was cancelled by capital inflows roughly equivalent in value. Nevertheless, the balance of trade deterioration if of consequence. In 1968 slightly decreasing exports coupled with steeply increasing imports resulted in Rhodesia's first trade deficie since UDI. Coupled with the invisibles deficit, the current account registered an

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[39] Economist Intelligence Unit, Rhodesia, Zambia, Malawi: Quarterly Economic Review, Number 1, 1969, p. 4.

[40] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 15.

overall deficit of £26.8 million.[41] "In the short run, however, there was no balance-of-payments problem; the current deficit was almost entirely offset by an import of long-term capital . . . ."[42] Capital inflows, then, again provided overall payments balance without running down reserves. It must be pointed out that the upsurge in imports which accounted for the trade deficit was essentially due to the disastrous performance of agriculture in 1968. Both European and African outputs were down substantially. This was due not to sanctions-induced domestic dislocations, however, but to a very serious drought. Therefore, since sanctions now appear to have been pushed to their limits, Rhodesia's balance of payments difficulties have been quite minor on the whole, although the substantial capital inflows of the past two years have been a major factor easing pressure upon the balance of payments. Again, inasmuch as poor weather conditions are unlikely to be a continually recurring phenomenon, the trade balance is likely to improve in the future.

Mention should also be made of the commodity terms of trade, which prior to UDI had evidenced a slight deterioration. In order to maintain its export markets Rhodesia has been willing to sell its products at prices lower than normal.[43] In this manner, many nations and

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[41] Rhodesia, Zambia, Malawi: Quarterly Economic Review, Number 2, 1969, p. 6.

[42] Ibid., p. 7.

[43] Sales of pig iron to Mexico and Peru were reported at one-half the world price. Sales to Japan were also reported. See Arthur Bottomley, "Rhodesia: Effect of Sanctions," speech at Commonwealth Parliamentary Conference, Montreal, September 30, 1966, printed on October 4, 1966, by British Information Services, Policy Statements.

businesses have been tempted to ignore (or bypass) the sanctions. At the same time, in order to maintain its import supplies, Rhodesia has had to pay higher prices, both due to a risk-premium and greater transport and middlemen costs resulting from circuitous trade routings in order to avoid detection. Rhodesia has been assisted in its exports, however, by a buoyant world demand for several of its products. Nevertheless, the further (and probably considerable) deterioration of Rhodesia's terms of trade can be attributed directly to the sanctions.

Some of the individual examples of both boycott implementation and contravention should be enumerated. On the implementation side, two major sanctions--oil and tobacco--are of note. Oil sanctions were introduced by Britain on December 17, 1965. Although Britain alone could not have effectively halted petroleum deliveries, the United States soon followed suit, as did other oil producers. Petrol rationing began in Rhodesia shortly thereafter. Prime Minister Smith established a government purchasing company, Genta, for the purpose of procuring oil for Rhodesia in the face of the embargo.

At first it was thought--particularly in British circles, which have consistently overestimated the potential impact of sanctions--that Rhodesia would soon be brought to its knees via this measure. In terms of sources of Rhodesia's power, however, only 27 percent derived from oil, with 10 percent coming from the Kariba hydro-electric facilities and 63 percent from solid fuels mined at Wankie.[44] Nevertheless, the

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[44] Mauriel Horrell, Days of Crisis in Rhodesia, Fact Paper Number 16, South Africa Institute of Race Relations, 1965, p. 43.

total cessation of oil imports would have been highly disruptive, probably creating greater havoc than any other single sanction. "White Rhodesia is a very car-borne society and most of public transport relies on oil--the railways use diesel oil."[45] However, oil supplies from unknown dealers and transported via mysterious tankers began porting in Mozambique and unloading petroleum cargoes. From there the oil went by pipeline to a relatively new Rhodesian refinery which had been processing petroleum for the needs of both Rhodesia and Zambia. When the owners of the storage tanks in Beira refused storage facilities for Rhodesian oil, construction on additional tanks was begun. "Through March, 1966, there were frequent reports of tankers approaching Beria, the east-coast port . . . linked by the Portuguese-controlled pipeline with the Feruka oil refinery in Rhodesia."[46] Such blatant violations of the oil sanctions prompted the granting by the Security Council of authority to the British Navy to prohibit such deliveries. A blockade of the Beira port to Rhodesia-bound oil was then instituted.

However, oil supplies entered Rhodesia from other sources as well and continue to do so to this day. The bulk of incoming oil comes by road from South Africa. It is being trucked via the Great North Road and enters Rhodesia at Beitgridge on the Limpopo River. One report in the spring of 1966 noted the following:

> By the middle of February this route was bringing in at least 35,000 gallons a day, almost half Rhodesia's current ration.

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[45]Sutcliffe, p. 6.

[46]"Rhodesia Post-UDI," <u>Current Affairs Bulletin</u> (Australia), July 25, 1966, p. 72.

> Our on-the-spot investigations on both sides of the border show that by the third week in March that original figure had more than doubled.[47]

There is another route generally unknown to the outside world which brings oil in by rail. The oil may originate at the Lourenco Marques port in southern Mozambique or in South Africa.

> To sum up, no matter what . . . happens to those pirate oil tankers or the pipeline, this country is sneaking in well over its public rations of about 80,000 gallons a day. In fact, the stuff is coming in such a steady stream that the only problems are distribution and storage . . . . The oil embargo . . . appears to be a complete failure.[48]

Since that time large storage tanks have been constructed in strategic locations. Petroleum has been stockpiled and natural gas is now providing another source of energy. Probably well over one year's supply of oil is now stored in Rhodesia.

In addition to domestic economizing on petroleum, supplies to Zambia have been discontinued. The result of the oil embargo, then, has been some disruptions and added expenses, but hardly a crushing blow. One commentator suggests the following:

> oil sanctions have become a joke. In the beginning, their effect was blunted by improvised shipments from Rhodesia's friendly neighbor, South Africa . . .
>
> Now, the need for these emergency shipments is over. Rhodesian oil supplies come in regularly . . . . The price has gone up a little; but no Rhodesian motorist is seriously inconvenienced.[49]

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[47] Frank Kearns, "A Report from Salisbury," telecast on CBS Evening News with Walter Cronkite, March 21, 1966, and reprinted in the *Africa Report*, April, 1966, p. 24.

[48] *Ibid*.

[49] W. H. Chamberlin, "Some Lessons of Rhodesia," *The Freeman*, July, 1968, p. 420-421.

"Indeed, it is Zambia which has recently been experiencing such shortages that motorists have been crossing into Rhodesia . . . in order to fill up their cars . . . ."[50]

> The oil embargo was never really a serious threat to the viability of the . . . economy. It had certain psychological effects--particularly the turning back of tankers in the Mozambique channel. It has created difficulties for the motor trade, for the oil companies, for the pipeline company and also forced the closure of the oil refinery. The extra cost of importing fuel by road and rail has pushed up prices and production costs in the economy. However, the measure of the embargo's ineffectiveness is that petrol is rationed only through the price mechanism. A consumer can purchase as much fuel as he requires provided he is prepared to pay the surcharge . . . .[51]

The tobacco sanctions have been far more effective. Tobacco has been by far Rhodesia's leading export and Britain was the traditionally dominant purchaser. The kind of tobacco raised, one of high quality, is rather distinctive so that "its origin is relatively easy to determine by experts; only Zambia seems to produce tobacco of a similar quality . . . a fact which obviously accounts for the frequent forgery of the certificate of origin of Rhodesian tobacco."[52] Tobacco arrangments have been undertaken under the cloak of the very greatest secrecy. Auctions are now held in secret at an unknown location within Rhodesia. Again, purchasers from diverse locations have shown an interest in continuing to purchase Rhodesian tobacco despite the sanctions. One 1966 report noted:

> Mysterious anonymous businessmen are arriving on every plane, filling every hotel--middlemen, buyers, and bargain hunters of every possible nationalicy . . . . They're involved in barter

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[50] B. Cockram, "Rhodesia--After the Tiger," address at Jan Smuts House, University of Witwatersrand, Johannesburg, March 6, 1967.

[51] Hawkins, p. 51.

[52] Portmann, p. 9.

> deals, complicated secret payments, cover stories, undercover deals, unmarked tobacco bales, coded cables, complietely _sub-rosa_.[53]

However, both the relative ease of identification of Rhodesia tobacco coupled with the availability of other suppliers--world markets seem to be well-supplied, especially in view of sales from American stockpiles--have made sales difficult. Without question tobacco exports are down very considerably. In addition, the prices paid have also been far lower than would otherwise be the case. The tobacco sanctions have been by far the most successful in terms of enforcement and in terms of creating domestic dislocations (to be discussed).

As for remaining export sanctions, they have been quite poorly enforced and rather easily evaded.

> The indications are that asbestos and copper sales are being maintained and markets have also been found for around a third of the chrome, almost half the iron ore . . . . In Japan, the British Embassy had lodged its twenty-seventh protest in six months against the purchase by Japanese firms of Rhodesian chrome ore at £10 a ton below world rate. The Japanese Ministry of International Trade declared itself satisfied that the consignment came from South Africa despite almost conclusive chemical evidence of Rhodesian origin.[54]

Exports of "gold, beef, cotton, and some other commodities . . . have probably not fallen, but quite possible [_sic_] risen since U.D.I., partly because these commodities are not easily identified, and mainly because they are in high demand abroad."[55]

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[53] Frank Kearns, "A Report from Salisbury," telecast on CBS Evening News with Walter Cronkite, March 30, 1966, and reprinted in _Africa Report_, April, 1966, p. 24.

[54] "Loopholes in Sanctions," _African Digest_, October, 1967, p. 148.

[55] _Ibid_., p. 149.

How have these exports been implemented in the face of sanctions? The methods of avoidance seem to be as great as the ingenuity of man can be pushed. In short, almost limitless. Often Malawian export papers are obtained. Rhodesian goods thus equipped and boarding the railway line at a location equally accessible to both Rhodesia and Malawi cannot be proved to be Rhodesian goods, especially if the authorities standing in judgment have little desire to rule in that direction. As to the procurement of Malawian papers, the official documents of that state were once printed in Salisbury and are quite easy to obtain. The use of this means is quite common. Certificates of origin from Mozambique are also readily obtainable. Use of these false documents has become so common that often little care is taken to avoid detection, as when Rhodesian corned beef was given a Mozambique certificate or origin rather than a Malawian. Mozambique does not produce corned beef!

Copper exports avoid sanctions by being sold to South Africa, where they had traditionally gone. From there the copper was reexported to European markets and with some exceptions this traditional pattern seems to be continuing. This same process is followed with several other commodities. Business contacts on a personal basis are either made in Zambia, South Africa, or Mozambique if foreigners are hesitant to enter Rhodesia.

Similar to the boycotts of Israel and Cuba, dummy organizations and a shuffling of subsidiaries have also been involved so as to engage in Rhodesian commerce without detection. Ironically, it appears that some Rhodesian exports are still selling in Britain, although under one of many disguises.

The ability to import is facilitated via these same means. It has been reported that "two modest Beira companies manage to import over 400 cars a month, mostly Volkswagens and Peugeots."[56] Thus, despite petrol rationing and the alleged embargoes, Salisbury is still crowded with cars. Ironically, the potential shortage of automobiles seems to have created greater attention to driving habits and the motor vehicle accident rates since UDI have been far lower than earlier periods. Nevertheless, sales of both new and used cars have been seriously depressed since sanctions began.

In short, the import sanctions have been an almost total failure in terms of denying Rhodesia access to external supplies. As long as the purchasing power is offered, the goods can be procured--and in almost any market. This is not to deny that import sanctions have had no economic impact, for they have. Import prices have risen appreciably. The essential point, however, is that access to foreign supplies remain. The reduction in the value and volume of imports has been the result of efforts to protect the balance of payments position. That is, the export sanctions have been of far greater significance in reducing imports.

Economic Impact Upon Rhodesia

When viewing the impact of sanctions upon Rhodesia, one should bear in mind the apparent goal of the British, who initiated the sanctions. This goal is to bring about certain changes in Rhodesia's

[56] Ibid., p. 148.

governmental and political structure without recourse to armed intervention. Given the renunciation of force, change must come from within, but is to be induced via external economic pressures--trade and financial sanctions. These pressures, if successful, would be likely to result in falling real incomes, increasing unemployment, inflation, and a variety of other domestically undesirable outcomes. These, in turn, would either result in substantial emigration of white Rhodesians, which would seriously reduce the viability of the present socio-economic structure, or if emigration did not occur on such a basis, the resulting economic dislocations would nevertheless make the populace (non-Africans) reconsider the politics of the Smith regime. In short, domestic economic declines would yield demands upon the government either to renounce UDI, resign, or bring about some kind of reconciliation with Britain. With these ends in mind, an examination of the impact of sanctions is in order.

With regard to the financial sanctions imposed by Britain, these measures gained little publicity but were expected in many circles to be of great consequence. They certainly created some dislocations and reduced Rhodesia's long-term ability to import both by the freezing of London-held reserves and by the exclusion of Rhodesia from the sterling area. Rhodesia was forced to demand payment for its exports in non-sterling hard currencies and this no doubt reduced total export earnings. Ironically, however, the total short run impact has been reverse of what was intended due to Rhodesian countermeasures.

Despite its London reserves being frozen, Rhodesia claimed to hold £12 million in reserves outside London, although this figure may

have been "puffed" for the purpose of assuring suppliers of adequate means of payment. The exact amount is not known, although just prior to UDI Rhodesia's total reserves were approximately £28 million. On December 16, 1966, the last date of quoted figures, reserves stood at £21.6 million. In response to United Kingdom financial measures Rhodesia repudiated its debt obligations in London and to the World Bank, which were estimated at £108 million.[57] Other measures to stop outflows were taken. The net result of the financial sanctions and countersanctions seems to have placed Rhodesia in a superior rather than inferior position for the first few years of sanctions, although the longer run prospects are more dubious. The blocking of payment inflows to Rhodesia by both Britain and Zambia amounted to "£5.1 million in 1966 while Rhodesia's retaliatory measures reduced the income paid abroad by £8.8 million--leaving a net gain of £3.7 million."[58]

Traditionally, Rhodesian banks relied upon London money markets when the need arose. The financial sanctions, however, have removed this practice and the banks are now limited "to domestic resources both for the mobilization of funds and the investment of short-term funds."[59]

> The isolation of the Rhodesian banking system however took place at a moment of strong liquidity, because . . . of the halt put to transfers for service, dividend and capital payments to Commonwealth countries . . . which normally would have found their way to London.[60]

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[57] "Rhodesia," Commonwealth Survey, January 7, 1966, p. 17.

[58] Hawkins, p. 52.

[59] Portmann, p. 11.

[60] Ibid., pp. 11-12.

In addition, liquidity was further strengthened by import restrictions which kept money from leaving the country and goods from entering. There was, therefore, an extraordinary volume of liquidity which suggested strong inflationary pressures. These, however, were generally arrested via Treasury and central bank control policies. As early as November, 1965, the month of UDI, government loans totaling roughly £20 million were issued and fully subscribed especially by investors who would previously have channeled the funds abroad. A national saving campaign directed towards the "man in the street" was implemented. The central bank manipulated reserve requirements and in addition issued a number of moral suasion directives. Despite these helpful measures, strong inflationary pressures nevertheless remained. More on this point will be stated later.

As has been indicated, tobacco is a very important sector of the Rhodesian economy and in addition happens to represent the area in which sanctions have been most effective. Tobacco is purchased from the farmers at fixed and graded prices by the Tobacco Corporation whose task it is to dispose of the crop. As mentioned, tobacco sales occur under the very greatest secrecy, in part a tribute to the importance of this product. The effectiveness of sanctions has resulted in crop restriction efforts by the government. Table 45 presents a summary of the tobacco industry from 1965-1969.

The prosperity of 1965 led to an increased tobacco harvest in 1966, as the table indicates. However, the purchase price was slashed considerably in an attempt to reduce efforts in this direction. The difficulties encountered in exporting the crop in 1966 led to a sharp

TABLE 45

RHODESIAN TOBACCO INDUSTRY
1965-1969

Year	Crop Weight (lb. million)	Announced Average Price (Pence per pound)	Expected Income For Growers (million)
1965	246	32.96	33.8
1966	260	24.0	26.0
1967	200	28.0	23.3
1968	132	28.0	15.4
1969[a]	132	25.0	13.7

[a]Rhodesia, Zambia, Malawi: Quarterly Economic Review, Number 2, 1969, p. 8.

Source: Hawkins, p. 55.

contraction in the planned harvest for 1967, this contraction being induced by a variety of means. Voluntary acreage cutbacks had lifted tobacco prices in 1965 after oversupplies had driven prices down. However, the continued reduction in planned output has obviously not endeared the regime to the tobacco farmers who have increasingly felt the pinch. In addition to crop restrictions, the average announced purchase prices are far below the 1965 level. The result has been that tobacco growers' incomes are officially anticipated to have fallen by a total of slightly over Ŀ20 million, or roughly Ŀ5 million annually. This is a very significant fall. Even further, the actual incomes earned are probably lower than the table indicates since particularly harsh grading of the tobacco has generally resulted in actual sales to the Tobacco Corporation at rates lower than the ones announced and anticipated by the farmers.

By August, 1967, it was estimated that the number of tobacco growers had declined by roughly 20 percent.[61] The government has been actively encouraging agricultural diversification so that this movement of factors away from tobacco was a step in the right economic direction. Nevertheless, this is likely to lead to a decline in total agricultural employment due to the fact that tobacco is a more labor-intensive crop than the most promising substitutes, of which cotton is the leading candidate. In addition, industries within the economy which had depended upon buoyant tobacco conditions have also been harmed and a downward multiplier effect is in evidence. However, the increases in

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[61] Hawkins, p. 55.

the production of other crops will tend to counter this decline somewhat as will the creation of ancillary activities. Nevertheless, it is unlikely that expansions in other areas of agriculture will be able to fully offset tobacco cutbacks until late 1969 or 1970 at the earliest. On the positive side, tobacco cutbacks will tend to ease the balance of payments situation since roughly one-fifth of the industry's inputs were imported.

The Tobacco Corporation has had great difficulty disposing of the crop, despite severe price reductions as inducements to purchase. Probably only 120 million pounds of the 1966 crop--less than half--were sold that year.[62] The stockpile in the early months of 1969 was roughly 300 million pounds.[63] The regime clearly recognizes the seriousness of the tobacco situation. Through the Tobacco Corporation's purchasing, even though exports were seriously curtailed, sharp dislocations in the industry have been avoided. However, this process is patently uneconomic and expensive. Toward the end of 1968 it was announced that the "total cost of stockpiling excess tobacco from the 1966 and 1967 crops, together with losses on sales already effected, amounted to more than £32 million and the outright loss on tobacco operations is put at £12 million."[64] In addition, because the tobacco is purchased domestically but not sold for foreign exchange which would be channeled into imports, another inflationary pressure has been growing.

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[62] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 7.

[63] Rhodesia, Zambia, Malawi: Quarterly Economic Review, Number 2, 1969, p. 8.

[64] "Rhodesia," Standard Bank Review, August, 1968, p. 16.

Although some cigarette processing and manufacture has developed, the products have been exported to rather marginal markets, such as Tangiers, and the longer run prognosis for tobacco is poor as long as sanctions remain. Although government support measures have very greatly eased the burden of sanctions for the growers, as a group they have become increasingly dissatisfied. Thus, while the 1969 tobacco purchasing price is set at 25 pence, the growers claim that their costs are between 26-28 pence. Government loans have been made available to encourage diversification, but inexperience with new crops and reluctance to change, coupled with declining tobacco incomes have caused considerable discontent. Nevertheless, the farmers are numerically a small group and the regime, although taking great pains to ease transitional problems and maintain grower incomes, has in general been able to ignore most of the protests against crop cutbacks. In addition, the farmers are among the most staunch backers of UDI, despite their economic vulnerability to sanctions. If they could muster sufficient political strength to bring about the kind of changes they want (which as yet is doubtful), it would not be likely to result in an accommodation with Britain, but rather income redistribution measures which would favor them over other groups within the economy.

Raw sugar had become an important export for Rhodesia by the early 1960's and the industry began to grow rapidly; however, the instabilities in world sugar prices have already been noted and slumping world prices dealt a body blow to this industry even before sanctions were implemented. Thus, in 1964 Rhodesia exported roughly 96,000 tons of raw sugar and earned almost $10 million. The following year exports

of this product nearly tripled, but prices had so fallen that earnings were \$7,000 less than the previous year.[65] Sanctions have been quite effective with respect to sugar also, probably because the world market was oversupplied and little need existed for Rhodesian sugar. Nevertheless, sugar is also being deemphasized, and the plantations have been tearing up cane roots so as to plant cotton and wheat. Thes products, coupled with groundnuts, cattle, and cereals (other than maize) have been encouraged by the regime.

Cotton production has increased very significantly, with the 1969 crop probably being six times as great as in 1965. This growth has been stimulated by guaranteed government prices, although cotton growers presently fear a reduction in the buying price from 8 1/2 pence to 7 1/2 pence per pound. Roughly one-third of the cotton is consumed in Rhodesia and another third exported to South Africa. The remainder must be disposed of on world markets. Maize is a staple of both African and white agriculture, but has periodically been in oversupply. As mentioned, wheat has become important. However, it is a rather high cost crop for Rhodesia. Hence, expansion in either maize or wheat is likely to be quite uneconomic, although a good 1969 maize crop may this year be a boon due to the poor showing of the South African harvest.

Although the movement away from sugar production was probably a beneficial result of sanctions, there is no question that the diversification will in general be costly. This is especially the case with

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[65] Kanner, p. 237.

respect to the tobacco cutbacks for which other crops must be substituted. The factors devoted to tobacco produced foreign exchange earnings sufficient to purchase in general much greater amounts of the new crops now being produced by the same factors. Cotton, however, may be an exception to this statement. Exactly how much of a cost this will impart is, of course, difficult to judge. It should also be mentioned that the domestic raising of agricultural products previously imported will in general be another pressure upon price stability due to relatively greater domestic costs than foreign.

Essentially due to the tobacco cutbacks, agriculture's contribution to the gross domestic product fell from £69.1 million in 1965 to £67.8 million. However, 1967 witnessed a new high of £72.7 million,[66] although the very serious drought of 1968 has no doubt lowered the figure for that year. This drought resulted in the substantial upsurge of imports mentioned earlier.

Table 46 shows the trends in national income accounts for 1964-1967. As the table indicates, gross national product fell in 1966 by £8.1 million, or roughly 2.5 percent at current prices. Given the high rate of population increase in the African population--about 3.5 percent annually--the fall in per capita GNP was roughly £4.1. These declines can be considered direct results of the imposition of sanctions. However, "In 1967 there was an improvement . . . this probably kept real

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[66]"Rhodesia," Standard Bank Review, December, 1968, p. 18. Part of this increase is due to price increases.

TABLE 46

RHODESIA: NATIONAL INCOME MEASURES
(1964-1967)

	1964	1965	1966	1967
(£millions)				
Gross Domestic Product (at factor cost in current prices)	327.2	352.5	341.9	369.6
Gross National Product (current market prices)	336.6	364.3	356.2	386.8
Gross National Product Per Capita (current market prices)	80.7	84.3	80.2	84.5

Source: Economist Intelligence Unit, Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 5.

GNP per head about constant,"[67] although it probably fell by 5 percent in 1968 (largely due to the drought).

In view of the 36.5 percent fall in the value of exports in 1966, the absolute declines registered in income accounts that year are rather modest, giving some indication of the success of diversification and import substitution efforts and other government countermeasures. However, the incidence of these income declines was uneven so that "the share of wages and salaries in national income actually increased in 1966 due to the sharp fall in profits."[68] As will be suggested later, it is probable that nonwhites bore the brunt of the real income declines.

Looking more closely at particular sectors of the economy the sharpest declines registered over the 1966-1967 period were in transport and communications activities. At the end of 1964 the automobile industry had been in the doldrums, but experienced a resurgence and prosperity in 1965. Sanctions, however, were particularly damaging in this area as automobile imports slowed and petrol rationing depressed the market. The motor assembly industry has been working at far below capacity for quite some time. Shortly after UDI the large Ford and BMC motor assembly plants, which were foreign owned, ceased production. They were reopened in December under Rhodesian control. Although forced to close for a period in 1967 due to a lack of spare parts, they have been "assembling about 13 models of French, Italian, German and Japanese cars . . . ."[69]

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[67] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 5.

[68] Hawkins, p. 46.

[69] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 7.

The reopenings created roughly 1,000 additional jobs, but both plants--cut off from their parent companies--have been operating below capacity. The chemical and petroleum products field has also been considerably depressed, although there were some signs of improvement in 1968.

Minerals have generally been the products most easily exported since the imposition of sanctions. While the actual volume of mining output fell marginally in 1966, the "value of mining output rose 2 percent above its 1965 level."[70] Asbestos products experienced a decline, but later recovered. Coal reserves are plentiful, but lack markets. Traditionally, the Wankie mines have supplied the needs of both Rhodesia and Zambia; currently, although Zambia still imports considerable quantities of Rhodesian goods, its coal imports have decreased since 1966 due to the rapid growth of its own coal mining industry. Iron ore, however, has been expanding, both to meet increasing local needs for steel and for export, particularly to Japan. And in 1968, the Anglo-American Corporation of South Africa began construction on a new nickel enterprise, this being one of the major new projects undertaken since UDI. On the whole, then, the mining sector has not been greatly affected by sanctions. Zambia's decreased coal imports would have been likely anyway since its own industry has developed, while rising domestic needs for steel have maintained iron ore production. Although gold mining is widespread, its relatively static price means that only higher grade ores are mined. A government support scheme has recently been introduced and if foreign exchange reserves fall greatly, it is likely that

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[70]Hawkins, p. 47.

subsidized gold mining on a large scale may be undertaken. Gold will encounter little difficulties being exported despite the sanctions, although this means of earning foreign exchange is quite expensive (at present prices) and is not likely to be resorted to on a large scale unless export earnings decrease substantially or import needs (due to another severe drought, as an example) skyrocket.

Looking at the manufacturing sector as a whole, it can be stated that under the Federation great gains were registered. The expansion of markets proved a major impetus to manufacturing growth. Despite dissolution, the Zambian market in particular remained a major outlet for manufactured goods. After UDI, Zambian imports began to decline steadily. The relatively large market had allowed certain economies of scale and in spite of a redirection of manufactured exports to South Africa (some of which no doubt ended up in Zambia again), the export market shrinkage has probably resulted in cost increases. The index of manufacturing production (using 1964 as a base) had risen to 108 in 1965 and then fell to 101 in 1966 as sanctions made their impact felt. In 1967, however, the index returned to its 1965 level.[71] With the exception of foodstuffs and electricity, each major area of manufacturing activity in 1966 was below its 1965 levels. In 1967, however, drink and tobacco had recovered to just about 1965 levels, while metals and metal products which had only slightly dipped due to sanctions, rose to an index of 113, five points above the 1965 level. Clearly, the greatest advances were made in textiles and clothing output which soared to 120 from a 1966 index

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[71] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 11.

of 103. Only tobacco grading and packing continued to decline. The 1967 index for these activities was 64, reflecting how deeply sanctions have cut into this industry.[72]

Emphasis has, of course, been on industrial diversification and import substitution. The textiles industry is a good case in point. Agricultural diversification has resulted in increasing cotton outputs, and this raw material has been used for supplying a growing textile industry which has been producing import substitutes. On the whole, local industry does not seem to have been greatly damaged by sanctions so far and it is likely that by now the worst is over. "It has been reported that 250 new factories had been established between UDI and August 1967 . . . ."[73] Import controls have stimulated demand for a wide range of locally-produced goods and the production response--both for home consumption and some export--has been quite good. Indeed, the vigor with which Rhodesian manufacturers have pursued the South African market (as the Zambian one has grown smaller) has been so great that South African businessmen began demanding protection from Rhodesian products. This has particularly irked the Rhodesians since South Africa has supplied much of the Zambian market which Rhodesia lost. Under pressure from South Africa, the Smith regime was forced in 1968 to place "voluntary" restraints upon the export to South Africa of textiles, shoes, and radios. In short, manufacturing industries as a rule have not suffered greatly due to sanctions, although costs have been raised

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[72] Ibid.

[73] Ibid., p. 10.

somewhat. The Rhodesian public has proved amenable to a whole host of new brand names as a multitude of previously imported items are now domestically produced. Quality does not yet appear to be on a par with many of the former imports, although it should definitely improve over time. In addition, while quality is down somewhat, this has not been very significant.

This empirical evidence verifies the Curtin and Murray study of 1967[74] which suggested that Rhodesian industry was rather sophisticated and, therefore, well-placed to withstand the impact of sanctions. Their findings indicated that the scope for successful import substitution was large. Provided that import licenses were obtainable so that certain vital imports could be gotten, it was found that a majority of industries showed considerable capacity for expansion. The authors write:

> It is, of course, most unlikely that the lost export markets for individual goods would be exactly offset by the new domestic markets created by the exclusion of imports. But since "competitive" imports of manufactures in 1965 exceeded exports of manufactures by no less than £33.0 million, the manufacturing sector as a whole might not be adversely affected by the change of markets.[75]

As subsequent time has shown, the necessary imported inputs have not been cut off and import substitution as a whole has been quite successful. In short, sanctions have in some instances probably provided infant industry protection, although it may be yet too early to judge. If this

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[74] Curtin and Murray.

[75] _Ibid._, p. 27.

is the case, as it appears to be in several areas, economic benefits will be derived which will in part offset the economic costs.

In agriculture, the picture differs. "Whereas in the manufacturing sector the same types of goods were often both imported and exported . . . imports of agricultural crops which were also exported were usually negligible."[76] In this area Rhodesia appears to have had little untapped potential and import substitution will in general be uneconomic, and therefore, costly. Unless there is a rapid expansion in home market demand--such as might result from, say, significant increases in the purchasing power of the African population, which is highly doubtful--the long-run prospects appear to be that the number of persons engaged in agriculture is likely to fall. This is true because there are limits to possible diversification in this sector and because many of the import substitute crops are less labor intensive than the area of major contraction, tobacco.

Interestingly and quite logically, the building and construction fields have been enjoying an upsurge since sanctions, which have provided the stimulus necessary to bring a waning industry back to its feet. Inasmuch as foreign investment was limited by exchange controls, while the propensity to save was stimulated both by government efforts and some general apprehension about the future, investment in private housing boomed as funds denied to other areas were channeled into construction. In addition, increased spending by the government, particularly on African housing projects, has also stimulated this industry. As

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[76] _Ibid_., p. 29.

construction picked up, some of the negative employment and income effects of the sanctions were offset via this domestic expansion.

During 1966 activities in the distribution sector also fell considerably due to sanctions. Both the decline in external trade and the increase in the propensity to save brought about a considerable decrease in commercial employment. During that same year, however, the public sector's contribution to the national dividend increased substantially. This is "reflected in the rise of 1,900 people in government employment, partly as a result of the deliberate policy of absorbing workers retrenched in other areas."[77]

It is important to view the overall employment picture, both because it will give some indication as to the impact of sanctions and because unemployment tends to result in political pressures upon the regime. Recalling that sanctions directly fall only upon those sectors engaged in international trade and that tobacco has been the leading export, it is obvious that that industry's employment situation must be adversely affected. However, as Table 40, page 288, indicated, for non-Africans this sector is not a major provider of employment. But for Africans it is the major employment sector, providing approximately (agriculture and mining together) 50 percent of total African employment. And it is here that sharp decreases have been registered. Overall, the employment of Africans fell some 9,000 (1.4 percent) in 1966.[78] With regard to non-African employment, sanctions did result in some temporary unemployment which affected perhaps as much as 10 percent of the

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[77]Hawkins, p. 48.

[78]<u>Ibid</u>.

non-African labor force. For the year as a whole, however, the number of whites employed did not change.

The pattern of employment also changed in 1966, reflecting adjustments of the economy to sanctions. As already mentioned, the distribution sector was severely adversely affected, with both white and black employment down by over 8 percent. The increase in the scope of government activities resulted in a considerable increase (8.1 percent) for whites in its employ, while the number of Africans also increased somewhat. The expanding building trades too increased their total employment, particularly of Africans (up 5.1 percent).[79]

It is evident that in terms of total employment, the non-Africans have not experienced declines. The Smith regime has been careful to maintain white employment and has been successful in its efforts. White unemployment, then, has not and does not pose particular political problems for the regime. For this reason unemployment rates have not been a factor pressuring the government towards a rapproachment with Britain. With respect to nonwhites the picture is different. "No estimates are available on the number of Africans rendered jobless as a direct result of sanctions, though the emigration of over 21,000 male Africans in 1966 and 1967 gives a pointer."[80] Prior to UDI rising African unemployment had been a problem and sanctions have only exaccerbated it. Although not posing an immediate political problem, the longer run implications of high and rising African unemployment are serious. To mitigate this

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[79] Ibid.

[80] Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 4.

increase in African unemployment the government instituted manpower controls in several industries. In addition, steps have been taken to prohibit the employment of nonlocal Africans. If the situation were to become unmanageable, it is likely that large numbers of alien Africans would be deported to their homelands.

In short, in terms of employment, the brunt of sanctions has fallen upon the African, most obviously not the intention of the boycott-initiators. In 1968, however, employment of both whites and nonwhites increased by a total of 3,600, the year marking a reversal of the declining trend of African employment.[81] However, it became obvious that agriculture, even if it had not been seriously weakened by the drought, was not capable of providing sufficient employment opportunities to match the growth in the African labor force. This means that African unemployment can be expected to be an increasingly thorny problem unless sanctions are ended and large-scale employment in sugar and tobacco recurs.

The various pressures towards inflation have been noted throughout this section. Nevertheless, the consumer price indices have evidenced no explosive tendencies, although they have clearly risen. However, the weights in the indices are woefully out of date and no doubt distort (underestimate) the actual amount of inflation which has occurred. Inflation has definitely been a problem, although certainly not an unbearable one. The government has skillfully blended monetary and fiscal policy to battle rising price levels and has done a rather

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[81] Rhodesia, Zambia, Malawi: Quarterly Economic Review, No. 2, 1969, p. 7.

commendable job in view of the circumstances. A national saving program of sizeable proportions has been implemented. Government bonds have been floated and continually oversubscribed. In addition, public finance has been dominated by a generally "orthodox" economic philosophy which eschews deficits unless absolutely necessary. Hence, falling purchase prices and crop goals for tobacco were implemented despite the political unpopularity of this move with the growers. Nevertheless, high levels of government expenditure have been maintained and clearly deflationary fiscal policy has probably been ruled out as a feasible alternative due to the likely impact upon African employment. Interest rates, however, have been high in order to hold the line against inflation and a credit squeeze has prevailed.

Despite the recognized downward bias of the currently used price indices, they are useful in viewing the pattern of inflation. Separately computed indices for Europeans and Africans indicate that the rate of inflation has been slightly higher for Africans. The area of highest price rises, for both whites and nonwhites, has been foodstuffs, reflecting the higher costs of import substitution. The index for clothing and footwear has barely risen, suggesting rather successful import substitution in these areas.[82] It should, however, be borne in mind that in addition to the downward bias of the index due to faulty weights, quality of output has also declined somewhat due to import substitution. While it can be expected that product qualities will improve in many areas as time goes on, this too has provided another

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[82] "Rhodesia," Standard Bank Review, December, 1968, p. 18.

downward bias for the price indices. Without question, one method of holding the line on prices would be to allow greater volumes of imports; however, the present restrictions are likely to remain so that adequate reserves will be assured.

Participation in international trade has a variety of impacts upon the domestic economy, most of which have already been mentioned. One so far unmentioned, yet relevant in this case, is the effect upon the distribution of income. A smaller participation in international trade tends to increase the relative scarcity of a nation's scarcist inputs and under a free market tends to redistribute income in their favor. In the Rhodesian situation, the managerial and technical skills of the whites clearly place them in the position of possessing the scarcist factors. Hence, despite the fall in total incomes for 1966 and the fact that per capita incomes in 1967 were roughly only equal to those in 1965, it is likely that earnings of the European population have nevertheless increased rather than decreased. Indeed, because of the fact that profits absorbed a large percentage of the 1966 declines, the politically biggest group within the electorate--employees--probably emerged from 1966 unscathed. And although the farmers were definitely hurt, they are politically less important and ideologically more committed to UDI principles. Finally, there has arisen a group of manufacturers and others who have benefited from the forced import substitution and are unlikely to pressure the government towards accommodation with Britain.

This is not to suggest that groups feeling a pinch have not pressured the government to reach an accord with Britain. The multitude

of negotiations between the Smith regime and the British reflect this Rhodesian desire to end the sanctions. Indeed, a very recent report stated that there "is no doubt . . . that business sentiment in general has been moving increasingly in favour of settlement."[83] Of course, business opinion is hardly unanimous, with the rising class of new industrialists being a group with much to lose presently from an end to sanctions. However, if import controls tighten further, as may be the case, difficulties in obtaining machinery spare parts and raw materials as well as capital goods may become serious. Import substitution in the area of capital goods is likely to be very costly. This factor will place further pressures upon the government. Moreover, with real incomes rising only slowly, the rapid growth in the home market (due to import restrictions) cannot continue very much longer, so that the "shoe string" capitalists will also soon feel the pressures of sanctions.

In addition, the farmers as a group have been squeezed considerably, and unless agricultural conditions can end their downturn-- a not too unlikely possibility--the farmers can be expected to pressure the regime for a greater portion of the economic pie. This, however, will cause political problems elsewhere, as one report notes:

> since you cannot please all of the people all of the time, you have to choose whose interests to sacrifice. The biggest decision of this kind has been the sacrifice of the farmers to urban interests. Had the regime agreed to purchase much more tobacco than it has done, then there would have been massive inflation. Its major impact would have been on urban whites from whom inevitably the majority of Mr. Smith's white supporters come . . . . There comes

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[83] Rhodesia, Zambia, Malawi: Quarterly Economic Review, No. 2, 1969, p. 6.

> a limit, however, to the extent to which one group can be squeezed at the expense of another. This limit may be approaching in Rhodesia.[84]

It should be added, however, that it is one thing to pressure the regime for favors to special interests and it is a second possibility to urge continued negotiations with Britain in the hopes of an acceptable settlement. Given the stand that the British have taken, however, it is a horse of another color to expect that white Rhodesians, however unhappy they may be under existing circumstances, will choose an alternative which in the long-run they consider to be worse than contemporary or likely future conditions.

The Curtin and Murray study of 1967 provided a theoretical case for expecting only relatively mild domestic income repercussions from sanctions. Based on the fairly weak assumption that only 40 percent of Rhodesia's 1965 imports were capable of import substitution and allowing for stockpiling of the tobacco crop, the expected fall in the level of national income was only 5 percent.[85] As it turned out, the actual fall in 1966 was less, while in 1967 the income accounts showed increases. Although some of this was due to inflation, it is doubtful if real income decreased that year. The smaller impact than predicted in their model is probably due to the fact that leakages in the sanctions allowed for more imports than anticipated. Last year (1968) may very likely have witnessed continued real as well as nominal growth, although the very severe drought may have vitiated the many gains in other areas. The

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[84] *Ibid.*, p. 7.

[85] Curtin and Murray, section four.

effect of sanctions upon an economy's long-range development--at least upon Rhodesia which was already quite diversified, technologically advanced, and not uniquely tied to particular outside suppliers--can be summarized as follows:

> an embargo on a country's exports of certain commodities has a once and for all impact, so there is no reason to suppose that the 5 percent fall in the national income induced by mandatory sanctions would necessarily be repeated in subsequent years . . . in the absence of additional sanctions or more effective application of the present set, there need be no further contraction of the Rhodesian economy. Instead, there may either be stagnation at the post-sanctions level of national income or eventually renewed growth but at a slower rate than would be achieved if export markets were reopened.[86]

Economic growth seems to be a function of a multitude of factors--rates of capital formation, human capital development, agricultural revolutions, industrialization, export stimuli, social overhead capital, institutional reorganizations resulting in political and social conditions conducive to growth, etc. The foreign trade sector is only one of these several variables. To the extent that vital imports can be maintained, while import substitution replaces the others, the economy need not grind to a standstill. Indeed, additional efforts in other spheres may be sufficient to more than counterbalance a lagging export sector and higher cost import substitutes. Hence, growth and development can proceed, although at a slower pace than would otherwise be the case. Curtin's conclusions concerning the future of the Rhodesian economy are pertinent.

> The implication of our analysis is that the Rhodesian economy has reached a stage of development reminiscent of the Indian rope trick, in that imports are used to help produce goods to substitute for other imports but in such a way that total imports are

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[86] T. R. C. Curtin, "Rhodesian Economic Development Under Sanctions and 'The Long Haul'," African Affairs, April, 1968, pp. 100-101.

> kept within the bounds of the fixed export level. This is possible on the one hand because the value of the more easily substitutable intermediate imports was initially several times larger than imports of capital goods, and on the other because of the wide range of natural resources and depth of industrial activity (from cornflakes to iron and steel) in the Rhodesian economy.
>
> In general it may be concluded that the limitation of exports to £70 million annually will not insofar as it affects the capacity to import prevent either the survival of the Rhodesian economy at the existing level of national income or its expansion . . . .[87]

In short, the economy can no doubt become a more self-contained one, yet probably not experience absolute declines in the level of economic activities, but only slower growth than would otherwise prevail. Indeed, it appears that a 3 percent annual increase in real output would not be unrealistic (and this assumes a tightening in sanctions enforcement, although continued trade with South Africa and the Portuguese territories).

It is very doubtful if this rate of growth will force the regime, either by emigration or domestic pressures, to renounce UDI. The opportunity cost of foregone revenues probably places only marginal discomfort upon the white population, and therefore, only mild pressure upon the government. More potent are absolute declines in output which could be expected to result either in significant pressures for policy changes or emigration or both. However, even during 1966 when absolute declines were registered due to the imposition of sanctions, there was a rise "in average white earnings that year of 3.4 percent which was the result

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[87] Ibid., p. 104.

of redistribution away from profits and African employee's earnings."[88] In short, a major reason for the unresponsiveness of Rhodesian's so far to sanctions has been the ability of the whites to shift much of the incidence of sanctions and thereby protect their standard of living. Judicious use of fiscal and monetary policy has minimized the two possible economic results likely to prove most disruptive and personally upsetting for white Rhodesians--unemployment and inflation. White unemployment, in fact, has been no problem whatsoever, and inflation has so far been only an annoyance or irritant.

What are the prospects that slower economic growth will result in emigration, say to South Africa? As indicated earlier, the average white Rhodesian income in 1965 was roughly 25 percent higher than the corresponding figure for South Africa. For this gap to be quickly narrowed, it would take a decline in the neighborhood of 17 percent of national income to reduce most white employees to the South African level.[89] Both theoretical prognostications and the evidence of the past three years suggest that this will just not happen. More relevant would be a comparison of the rates of growth in Rhodesia and South Africa. Assuming that Rhodesia's growth averages only 3 percent per annum, while South Africa's maintains its 1967 rate of 7 percent (these are conservative estimates since neither assumptions are highly likely), than the earnings differential would tend to be eliminated within about

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[88]T. R. C. Curtin, "Sanctions and Rhodesia: A Reply to R. T. McKinnel," African Affairs, January, 1969, p. 57. See also Ministry of Finance, Economic Survey of Rhodesia, Salisbury: Government Printer, 1966, Tables 3 and 19.

[89]Curtin and Murray, p. 20.

six years. "However, if the growth rate of the South African economy averaged only 5 per cent . . . it would take 11 years for the 25 per cent premium which white Rhodesians currently enjoy . . . to disappear."[90] In addition, practical considerations suggest the period would be much longer. It is doubtful if the government, in the face of likely white emigration of consequence, would not undertake measures to further redistribute income away from the African population. Moreover, the above figures ignore the costs of moving and the probable loss of wealth due to forced sales, all of which would tend to prevent emigration even if incomes were to equalize. Finally, these economic calculations ignore other motivations which may be of importance. Hence, it is quite possible that even if incomes were equalized, whites may not leave due to patriotism, devotion to principle, or just plain stubbornness.

The above speculation suggests that the likelihood of sanctions bringing about a renunciation of UDI are quite poor. Rather than submit to eventual African rule (which a reconciliation with Britain apparently must mean) large-scale emigration to South Africa would be likely. However, as yet there is little economic[91] basis for it, and since informed prognostications suggest that the income differentials will be maintained for many years, future emigration which might force a

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[90] "Sanctions and Rhodesia: A Reply . . .," p. 57.

[91] There may be other reasons, such as a fear of armed British intervention, a protracted guerilla war with blacks of Zambia and other African states, etc. These, however, are not a direct result of sanctions and will not be considered.

submission is not on the horizon. This theoretical hypothesizing is solidly backed by events of the past several years. As was earlier indicated, rates of immigration and emigration have traditionally been indicators of economic conditions and potential in Rhodesia. That Rhodesia is weathering the storm of economic sanctions is clearly indicated by the rates of immigration and emigration which are shown in Table 47.

During 1956, a year of prosperity, 13,000 Europeans were added to Rhodesia's population. The outflow of African males--which has occurred in every year--was lowest in 1956, again an indication of high level of economic activities, yielding a net inflow of more than 10,000 persons. In 1963 and 1964, years of political uncertainty and economic stagnation, the European outflows exceeded a total of 12,000 for the two-year period. However, the prosperous conditions of 1965 yielded a net inflow of 4,500, while the African outflow was cut almost in half. For the first time in a decade the net figure for all persons was positive. During the first year of sanctions a loss of Europeans again occurred. However, that the burden of economic declines fell mostly on the blacks is clearly indicated by the enormous outflow of African males, yielding a total population loss by migration of 17,000. Recovery in 1967 is evidenced by the net inflow of whites and a decreased outflow of Africans. Relative prosperity in 1967 coupled with tax incentives to new settlers in 1968 found that year (1968) witnessing the greatest number of European immigrants in more than a decade as well as the lowest number of emigrants since 1959. The outflow of Africans also declined so that a net gain

TABLE 47

RHODESIA: NET MIGRATION
(1956-1968)

	1956	1963	1964	1965	1966	1967	1968
			(in thousands)				
Europeans	13.0	-5.4	-6.8[a]	4.5	-1.0[a]	4.2[a]	7.0
African males	-2.6	-5.1	-5.5	-2.8	-16.0	-7.1	-4.8
Totals	10.4	-10.5	-12.3	-1.7	-17.0	-2.9	2.2

[a]Includes Asians Eurafricans.

Source: Rhodesia, Zambia, Malawi: Annual Supplement 1968, p. 4, and Rhodesia, Zambia, Malawi: Quarterly Economic Review, Number 2, 1969, p. 7.

by migration of 2,200 was registered. For two consecutive years, then, positive net inflows of Europeans have been recorded.

It should by now be obvious that migration is relatively easy and that any undue economic hardship resulting from sanctions is likely to wipe out these migration gains of the past two years. However, what they do indicate is that relatively prosperous conditions still prevail in Rhodesia so that despite political uncertainties, far more whites have been attracted in the past two years than have left. They also suggest that pressures upon the regime due to emigration have not yet presented themselves and may not ever arise. In addition, the inflow of whites will also bring capital inflows, aid in the creation of a larger home market, and bring skills and abilities. In short, net inflows not only are evidence of the relatively small impact of sanctions, but will serve to further stultify these economic measures. Perhaps the only drawback is the likely increase in the demand for imports, although this may well be offset by increased exports.

The only serious clouds upon the economic horizon are the prospects of African unemployment. Even prior to UDI high African birth rates coupled with limited employment growth posed the specter of substantial African unemployment. Sanctions have simply added to this problem. To the extent that substantial emigration takes place, the incidence of sanctions is thereby shifted to surrounding countries whose rates of unemployment are likely to increase.

Political Repercussions

"The British Government's policy on UDI was based primarily on its negative reaction to the illegal seizure of power"[92] in Rhodesia. Being a British colony, Prime Minister Wilson's government maintains that the Rhodesians did not have the right to declare themselves independent without prior British consent. Hence, the British government considers it an illegal declaration of independence (IDI) rather than the better known unilaterial declaration of independence (UDI). Inasmuch as the pre-UDI negotiations with the British seemed to require more concessions in return for the grant of independence than white Rhodesians were willing to allow, the Smith regime acted unilaterally. Britain then initiated selective sanctions, but at the same time renounced the use of force as a means of bringing Rhodesia back to legal government. Diplomatic efforts were, of course, also used in the hopes that a settlement might still be reached. These have gone on almost continuously since UDI.

The black states of Africa were particularly dismayed both by UDI and by Britain's means for putting the rebellion down. In retrospect, they have had good reason since the political inefficacy of sanction is a continuing fact. These African states pressured Britain for further measures and attempted to bring the issue before the UN Security Council in May, 1966, but were thwarted in their efforts by Britain, the latter

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[92]George W. Shepherd, Jr., "The Failure of the Sanctions Against Rhodesia and the Effect on African States . . .," Africa Today, February-March, 1968, p. 8.

insisting that the Rhodesian situation was a matter purely within its own internal jurisdiction.

The inefficiency of sanctions in bringing down the Smith regime, coupled with sanctions-busting even by some Commonwealth nations resulted in growing tensions between Britain and the African states. Indeed, "It was suspected that the British were secretly trying to protect their 'kith and kin' in Rhodesia and were not serious about international sanctions."[93] At the end of 1966 when it became obvious even to the British that their boycott alone would not suffice, UN sanctions were invoked, the Rhodesian situation then considered as constituting a threat to world peace. While this placated African tempers somewhat, the continued viability of Rhodesia coupled with Britain's reluctance to take further measures (and its effective veto of additional actions in the UN) resulted in growing African disillusionment, both with Britain and with the United Nations, and perhaps, with white men as a race. Such feelings are well summarized by an excerpt from an African newspaper.

> The end result of this may well be disillusionment with the UN, to the extent that the Afro-Asian nations no longer consider it a worthwhile organization. Such a reaction could lead to a confrontation between black and white in Africa.[94]

In short, the continuing failure of sanctions has resulted in growing African resentment at what are considered to be half-hearted efforts in restoring British rule so that the African majority can soon control its own destiny.

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[93] _Ibid_., p. 9.

[94] _Times of Zambia_, August 3, 1967.

Even prior to UDI the Smith regime had invoked a state of emergency legislation due to certain political difficulties. After the imposition of sanctions it was easier for the regime to maintain this state of emergency and extend its control. And this the government has done most fully. Repression of both blacks and whites whose views differ from the regime's has become widespread. All these measures, of course, became more justifiable and acceptable in a country under seige, albeit economic, whose institutions and organization were threatened.

As indicated earlier, much of the incidence of the boycott has been shifted to the African population. This obviously was not an intention of the British. At the same time many Africans have been repatriated to other African states. This has increased the likelihood of guerilla activities and made the surrounding states even more violently anti-Rhodesian and anti-British. Although force has been renounced by the British, bloodshed may nevertheless result due to the increasing unemployment of Africans and thir emigration from Rhodesian.

If sanctions do become suddenly more potent, or if they are extended to nations aiding Rhodesia, as the UN charter calls for, then this is likely to force an economic merger of the white-dominated areas of southern Africa. The creation of a southern Africa common market would undoubtedly allow all these white-controlled areas to survive economic sanctions and would at the same time further split Africa into white versus black camps.

The economic reasons for the failure of sanctions have already been indicated. Noneconomic factors are also very much at work. Essentially these refer to the resoluteness of the population to defy

sanctions and its adaptability to living conditions under sanctions. Given a sufficient conviction in the basic values under attack, a feeling of facing a common enemy as well as a loss of identification with the attacker, the population under economic penalties can be made to endure a great many sactifices without losing its will to continue. Indeed, further sanctions may simply result in a further toughening of the people. Whereas the Wilson government expected that the groups of liberal Rhodesians and those still loyal the Crown would be joined by others who in the pinch of difficult economic circumstance had decided to also renounce UDI, the opposite resulted. Rhodesian whites moved towards consolidation and support for the regime under attack. Their resiliance to hardship has proved strong, as one Rhodesian repatriate has written:

> many of the European minority are of British stock; and many have displayed the flexibility of mind which enabled them to endure the conditions of war-time England. Not only do they now believe themselves to be under siege. They have shown that ingenuity which enabled many of them to triumph over rationing and to keep up appearances under a calm exterior, which in England in the 40's was a matter of commendation, and now in Rhodesia in the 60's is seen as a horse of another colour.[95]

This, of course, suggests that the adaptive mechanisms are strong and that even if a tightening of sanctions inflicts considerably more economic hardship, it may nonetheless fail to yield the desired political results. Nevertheless, there is probably some level of economic hardship which can become unbearable for particular persons or sectors of the economy, thereby making political success more likely. However,

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[95] "Hard Going in Rhodesia," Today, June-July, 1967, p. 7.

it is highly questionable if sanctions have the capacity to depress conditions that low, given the structure and potential of the Rhodesian economy, coupled with oil supplies from South Africa and a tenacious determination to fight on to victory.[96]

In short, sanctions have so far failed to attain their political ends and are not likely to do so in the near future. In addition, this failure has engendered a growing hostility toward Britain and the West as well as a disillusionment with the United Nations. Perhaps the one major oversight of the British was their failure to realize that living conditions under sanctions must be made worse than the likely conditions which would prevail if capitulation and eventual African majority rule ensued. The prospect of African rule strikes terror in the hearts of most white Rhodesians. It does not appear that any amount of economic hardship would result in their relinquishing their elite status, except of course, abdication via emigration. The economic carrot and the economic stick have in the past induced men to many and varied achievements and have wrought drastic changes in social and political organization; however, there are limits to the ability of both positive and negative economic motivations to induce men to change, particularly if the prospects under changed conditions are highly distasteful and unappealing. Indeed, if the choice appears to be one of economic

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[96] See John Galtung, "On the Effects of International Economic Sanctions," World Politics, April, 1967, for his article on the Rhodesian situation and a theory of sanction goals and means. In particular, see section III for the psychological and sociological defense against sanctions which have developed and serve to maintain the determination of the white population.

hardship or political, social, and perhaps personal suicide, there seems little question as to the outcome of such a decision.

CHAPTER V

SUMMARY AND CONCLUSIONS

Economic sanctions are penalties inflicted upon one or more states by one or more others, most generally for the purpose of coercing the target nation(s) to comply with certain norms which the boycott initiators deem proper or necessary. Sanctions may take the form of a refusal to export to the target nation, or to import from it, or both. Boycotts may be selective and cover only specified commodities, such as sugar initially in the Cuban situation and tobacco originally in the Rhodesian case, or they may be general. In addition, boycotts may be unilateral, with only one nation enforcing them, of multilateral, or they may be universal, with almost all nations participating. Initial sanctions against Cuba were unilateral; those against Israel and later against Cuba have been multilateral, while the sanctions against Rhodesia may be considered universal, although quite obviously important exceptions do exist.

The basic theory behind economic sanctions--which represent a method of coercion without resort to armed force--is that economic pressure upon the target nation(s) can be made sufficient to induce that nation to more acceptable behavior in the eyes of the boycotting states. Inasmuch as participation in international trade has a positive real income effect which allows the consumption possibilities frontier to move beyond the domestic production possibilities curve, any forced

diminution or withdrawal from trade will tend to reduce income, _ceteris paribus_. The consumption possibilities curve will move inward toward the domestic production frontier while at the same time the actual operating point of the economy will also tend to move inward. Unemployment of both human and nonhuman factors is a likely result. In addition, there may be a wealth effect such that some of the existing capital stock may be rendered useless or ineffective. If this is the case, as it has clearly been in Cuba, then the domestic production possibilities curve itself moves inward in addition to the above factors.

The costs inflicted by economic sanctions may be either direct, indirect, opportunity costs, or what is most likely, a combination of the three. Rising transport costs are perhaps the best example of direct costs, while the indirect ones include the many domestic dislocations and slowdowns which result from a disruption of normal foreign trade. Opportunity costs include foregone export earnings from commodity or service exports, and other opportunities unrealized. While the opportunity costs may possibly outweigh both the direct and indirect costs combined, they are very difficult, if not impossible, to quantify. More importantly, these costs are not likely to bring about the desired political ends since opportunities foregone are only rarely missed. More immediate pressure derives from the direct and indirect expenses which can be clearly seen, both by politicians and the everyday citizen. If sanctions are to be successful, it is the direct and indirect costs which must be made to soar. Of the boycotts under study, the direct and indirect costs to Cuba were clearly the greatest of the three and loomed large relative to the Cuban economy. In addition, there were significant opportunity

costs such as foregone tourist revenues, to mention just one example. Despite the very high degree of effectiveness, the boycott has nevertheless been unsuccessful in procuring its political ends. In the Rhodesian situation there have been direct and indirect costs of significance, but hardly comparable with the dislocations in Cuba. The opportunity costs of diminished foreign investment, foregone tobacco revenues, etc., have no doubt been important, possibly outweighing the direct and indirect costs combined. In the Israeli situation, the major impact has been in terms of opportunities foregone, which have been considerable, while the direct and indirect costs have been of only marginal significance.

The assumption of *ceteris paribus* conditions is, of course, patently unrealistic. The target nation(s) can be expected to take steps to minimize the boycott's impact. One of these is likely to be domestic diversification and import substitution. If infant industry potential exists, the boycott may bring about an improvement in real output in certain areas of the target economy, thereby acting as an offset to the negative income effects. This appears to be true in the Rhodesian situation in certain sectors. Import substitution may even be possible over a broad spectrum of goods, depending upon the adaptability and sophistication of the target economy. However, costs tend to rise (even when there exists infant industry potential) and these are likely to spread to the rest of the economy. In addition, in the short run import substitution often requires a large volume of imports at a time when the economy can ill afford foreign exchange expenditures. A hurried import substitution is also likely to lower quality of output,

as has been markedly noticeable in both Cuba and Rhodesia, although less so in the latter.

Another possibility is the restructuring of trade patterns so that foreign substitutes--both markets and supply sources--may be procured. This has obviously been the case in all three of the boycotts under study. Such a restructuring of trade patterns tends to result in a worsening of the terms of trade (in addition to added transport expense). It is possible, however, that trade diversion might result in an improvement in the terms of trade if the disrupted trade patterns were far from optimum. Thus, it could be alleged that Cuba was historically tied to a high cost producer and the severance of this tie would have beneficial long-run effects. In point of fact, however, except for some marginal areas, this has not been the case in any of the three boycotts studied. Therefore, it seems safe to conclude that an adverse movement in the terms of trade is a likely result of a forced trade diversion, although this also depends upon a variety of other factors such as conditions in world markets, the number of nonboycotting states for which trade potential exists, and related factors. In addition, economic aid may be forthcoming from political rivals of the boycotting states, in which case the terms of trade again may not move adversely.

There are other measures which can be taken to mitigate the impact of economic sanctions. Make-work projects and subsidized import substitution will tend to minimize the unemployment resulting from a decrease in the foreign trade sector, while at the same time an increase in the propensity to save will tend to forestall or minimize the inflationary pressures deriving from the falling volume of imports

coupled with increasing domestic costs and price pressures from make-work activities.

It should also be recalled that the incidence of sanctions does not always fall wholly upon the intended targets. As Galtung has suggested, the "collective nature of economic sanctions makes them hit the innocent along with the guilty."[1] Thus, in the Rhodesian case the incidence has been shifted largely to the African population rather than falling upon the various segments of the white power structure as intended. In Cuba the incidence ultimately fell in large measure upon the middle classes, but the political situation made it impossible for any groups harmed to bring about the changes which the boycott initiator wished. The costs of trade disruption may also be borne by the boycotting states themselves and by third parties, a point which will be discussed shortly.

Finally, another response to the imposition of sanctions is a conditioned adaptation to self-sacrifice. If goods cannot be procured, or can only be obtained at exorbitant costs, the nation may simply adjust to the new situation and condition its life according (assuming that the absolutely vital imports are maintained) rather than capitulate. When the League of Nations imposed sanctions against Italy, Mussolini exhorted his countrymen to do without for the protection and safety of their country. Castro, of course, has done the same. Indeed, sacrifice becomes a national campaign. In fact, even conspicuous sacrifice--such as when Ian Smith is shown via the mass media to be using a bicycle

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[1] Galtung, p. 390.

rather than his car in order to conserve petrol--will be found. The political outcome of such self-sacrifice may yield one of two possibilities--capitulation or a hardening on the part of the target state. Which exact outcome will prevail is in large measure a function of domestic reactions to the boycott.

"Clearly, if political disintegration should take place it would happen through the dual effect of sanctions, which weakens the people in power and strengthens those in opposition."[2] As has already been indicated, the boycotts of both Rhodesia and Cuba have been used by the regimes as an excuse for the extension of certain powers. Given the strong degree of personal control which Castro exercises in Cuba, the erosion of his political position was and is not likely. Inasmuch as the Cuban government controls almost all information flows, and at the same time has taken very effective measures to stifle the creation of any opposition groups, the damages wrought by the boycott have not weakened Castro nor have they been able to stimulate the creation of an effective political opposition. On the other hand, it has enabled the creation of a Cuba self-image which depicts Castro and his country courageously marching forward and prevailing in spite of the economic aggression of the United States. Exhortations to greater achievements and further sacrifice--a commonplace in the motivational arsenal of socialist states--have been reenforced by "imperialist economic warfare." In short, sanctions have rather perversely toughened the resoluteness and determination of a large segment of the Cuban population, while the

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[2] Ibid., p. 392.

absence of opportunities for the growth of effective political opposition has meant that any discontent induced by the sanctions has had little chance to forge itself into a political force.

In the Rhodesian situation a much more fluid political environment prevailed prior to sanctions, with free elections having been held and meaningful opposition groups existing. However, in the face of sanctions the Smith regime has been able to effectively stifle opposition through a variety of measures, such as censorship of the information media, the arrest and seizure of citizens or literature which is declared to be contrary to the interests and security of the country, and a host of ot other measures which have been justified because the nation is under seige. Interestingly, the censorship of the press and arrests of political opposition have evoked almost no meaningful response from a white population generally accustomed to the full gamut of civil liberties found in the British Isles and Commonwealth areas. This, however, accords with a frequent observation that censorship of ideas and views generally contrary to one's own is not likely to evoke much protest. In short, effective political opposition has not been created, but instead stifled, such repression ironically being justified by the necessity to face the economic warfare against the target nation. With regard to the possible growing unpopularity of the regime as sanctions made their impact felt, it has already been demonstrated that the bulk of the incidence was shifted to the African population. White employee earnings actually increased during the first and so far most potent year, 1966. Being the largest group within the electorate, they have had little to complain about economically, whereas the farmers who have been hit the

hardest were among the staunchest defenders of UDI. By adroit manipulations--both via fiscal and monetary policy and political strategy--the Smith regime has been able to maintain its own position and generally solidify white morale rather than witness its dissolution. The government has attempted to belittle the impact of sanctions, demonstrate that they have not and will not be effectively enforced, and that Rhodesia can carry on indefinitely without discomfort. In addition, the regime has wisely depicted capitulation as not merely a return to pre-UDI conditions, but of the rapid enfranchisement of the African population--an alternative which the white electorate is certain to reject.

What is generally overlooked by the initiators of economic sanctions is the potential for adaptive adjustments within the target states, both economically and otherwise. Political integration rather than disintegration is likely if the ruling elite responds to sanctions with sagacious defensive policies. If the boycotts can be depicted as attacks from the outside upon the group as a whole (and its way of life), resistance will be stronger. If there is a weak identification with the attacker, this too will reenforce resistance. Finally, if no other acceptable alternatives can be found, life under sanctions will remain preferable to capitulation. In the Cuban situation, the boycott has been depicted as aggression not against Castro, but against the entire nation and their aspirations and desires. Resistance is bolstered by playing upon an historic resentment against the large nation to the north. Finally, the superiority of the Cuban socialist system being created--as opposed to the brutal and inhumane system of American capitalism and a Cuba again under American suzereignty--has been stressed.

In the Rhodesian instance, the same strategy can be found. The attack is pictured as one upon the entire group and its way of life, launched by an external force misguided in direction and goals. Interestingly, many resisting Rhodesians still seem to cling to their loyalty to the Crown, but resist instead what they consider to be the perversions of the Wilson government and its individual leaders who have themselves betrayed British decency and morality by carrying on an immoral war against their loyal countrymen living far away. It almost goes without saying that the fact that Britain has experienced some racial difficulties itself coupled with the seeming unavailability of any feasible alternatives makes capitulation and the concomitant imposed Whitehall solutions totally unacceptable and resisted with full force. In the Israeli situation, of course, the full strength of the criteria listed above are operative to solidify resistance; the attack is upon the entire state, by third parties with whom almost negative identification exists, coupled with the total absence of an acceptable alternative. Interestingly, the process of adptation under sanctions can and is likely to be reenforcing. For instance, car pools in Rhodesia have been formed to economize on petrol. New personal friendships have thus been made and a greater social consciousness has been stimulated. Other examples are easy to find. In short, group solidarity has reenforced resistance.

Thus, "value-deprivation creates the social conditions under which much more sacrifice is possible so that the limit for political disintegration will be reached much later"[3] than might otherwise seem the case.

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[3] Ibid., p. 389.

Economic hardships inflicted via sanctions, then, can be manipulated and adapted to, depending upon the capacity of the target society, in a variety of ways. Economic hardship may nevertheless persist, but still may not evoke political disintegration and capitulation. Indeed, sanctions are likely to further the legitimacy of the target regime and its offending actions.

Boycotts may be viewed as collusive arrangements. As such it should be recognized that the greater the number of boycotting states, the more likely it is that secret cheating will occur (although it is still quite possible and likely that the greater the number of enforcing states, the greater the economic effectiveness). A study of sanctions brings to the fore the mutually beneficial nature of voluntary exchange. Secret cheating is likely not only because with more boycotting states detection is more difficult, but essentially because it is economically advantageous, even if not morally acceptable. Thus, the imposition of sanctions tends to impose economic losses upon the boycotting states as well since they must rearrange their markets and suppliers. Indeed, Rhodesia's staunchest political foe, Zambia, has found it impossible to fully sever trade relations, and has simply tapered them off as quickly as it could. In the Arab world, Jordan undoubtedly suffers considerable economic harm, both in terms of transit fees, joint use of irrigation and other projects which have been foregone, and in terms of a rerouting of its trade away from Haifa, its natural outlet to the Mediterranean, to Beirut via Damascus--an awkward and relatively expensive trip.

This dissertation has studied politically motivated trade cessations and has tended to demonstrate the case for international trade

and the concomitant benefits by looking at the exception--what happens when trade becomes artificially constrained. It has been shown that the gains from voluntary trade are mutual and that imports tend to keep price levels from rising. In addition, quality of output may suffer considerably if import substitution which ignores comparative advantage is undertaken. Finally, and perhaps most importantly, it has been shown that the benefits from trade essentially derive from imports rather than exports, a basic but often-overlooked point. To refuse to purchase another country's exports harms that nation essentially because it is deprived of the purchasing power necessary for procuring foreign supplies. This suggests that in the future sanctions should be first and foremost import-oriented, that is, supplies of goods to the target nation should be cut off as quickly and as completely as possible if the boycotting states wish the sanctions to have a meaningful impact. Finally, in view of the heavy dependence upon foreign trade of the nations studied, their continued resistance and viability indicates that gross trade volume is not a very accurate indicator of vulnerability (in the sense of being subject to political influence) to economic sanctions.

The degree of economic effectiveness of sanctions tends to vary inversely with the elasticity of demand for the products of the boycotting states. Elasticity is a function of a variety of factors, of which three will be mentioned as illustrative: (1) whether the goods involved are considered luxuries or necessities, (2) the availability of substitutes--domestic or foreign, (3) the time period involved. With regard to the first factor, it quite obviously makes a great deal of difference whether the products of the boycotting states are considered

luxuries or necessities in the target nations. If, for example, Italy were to boycott the United States and in the process deny this country its supply of olives, the economic impact of the boycott (assuming these to be the only goods involved) would be minimal. On the other hand, if petroleum or some other item of vital importance were involved, the impact upon the target nations is likely to be much greater.

In a similar vein, if substitute supply sources are readily available, the boycott may entail some additional transport costs, but would hardly cause significant domestic dislocations. The number, nature, and economic distance of the nonboycotting nations would be relevant criteria in determining the availability of substitute supply sources. In addition, if import substitution is both technically and economically feasible, again the impact of the boycott will be mitigated. On the other hand, if alternate suppliers cannot be found, such as might be the situation in a truly universal boycott or as in the case of Cuba, in which alternative suppliers were not able to provide the spare parts and raw materials traditionally used, then the impact becomes much greater. In each of these situations, the greater the inelasticity of demand for the goods of the boycotting states, the greater is the likely economic impact.

Finally, the time period involved is important. In relatively short-run periods demand tends to be inelastic. Over time, however, new processes may be discovered which lessen the necessity to import, synthetics may displace natural raw materials, and a host of other adjustments can be introduced. This suggests that boycotts tend to be most effective in the short-run when a dependence upon the goods

previously externally supplied is still strong, but enough time has not elapsed for successful import substitution and other adaptive measures. As an example, one need only note the Cuban situation in which the dependence upon American parts and raw materials has continually lessened as Western European and socialist bloc capital goods, technology, and intermediate products become more fully entrenched.

It might also be added that in addition to a lessening economic effectiveness over time (unless loopholes are plugged, more goods and nations join the boycott, etc.) it is likely that the boycotting states themselves may possibly weary of their efforts and the failure of their designs. Certainly this was the League of Nations experience. Interestingly, one plank in the Eugene MacCarthy platform for the presidential nomination in 1968 was a restoration of trade and normal intercourse with Cuba. It is likely that in the future more American voices will be raised in this regard.

To summarize, the study of boycotts has reenforced the well known conclusions concerning the gains from trade by examining exceptions to the rule. At the same time it has been suggested that economic sanctions are most likely to be successful as a short-run measure, when their economic effectiveness tends to be greatest. Finally, economic effectiveness in no way guarantees political effectiveness. Economic damage, then, is a necessary condition for success, but hardly a sufficient one. The three boycotts studied have so far failed to accomplish their political ends and it does not seem likely that they will fare better in the future.

APPENDICES

Appendix A

Socialist Bloc Aid to Cuba

Appendix B

Boycott Office Questionnaire

Resolution of the Arab Economic Council

Questionnaire Letter of Transmittal

Questionnaire on Arab Boycott

Boycott Questionnaire: Statistical Summary

APPENDIX A

SOCIALIST BLOC AID TO CUBA

Bloc aid to Cuba began in 1960 with a Soviet credit of $100 million. In the following years long term development aid was extended by almost all socialist nations, totalling $473 million by 1965. This aid is summarized in Table 48. As is indicated, the U.S.S.R. has been the leading donor. The terms with all but one exception require 2.5 percent interest, similar to Soviet credits to other developing nations, and the amortization period varies from five to twelve years, mostly typically ten years. These credits in general made possible the importation of capital equipment, technical assistance, and other items related to the industrial development of Cuba. In addition to these credits, unilateral transfers from the Soviet Union were made available on several occasions. Further elaboration on the aid agreements need not be enumerated here as they can be found elsewhere.[1]

Since the full details of the actual assistance rendered under these programs has not been disclosed, it is possible that Cuba has not fully utilized the amount of credit extended, either due to internal bottlenecks and a limited absorptive capacity or due to problems on the

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[1] See R. S. Walters, "Soviet Economic Aid to Cuba; 1959-1964," International Affairs, January, 1966, pp. 74-86, and Grupo Cubano De Investigaciones Economicas, Un Estudio Sobre Cuba, Miami: University of Miami Press, 1963, pp. 1493-1516.

TABLE 48

LONG TERM ECONOMIC DEVELOPMENT CREDITS EXTENDED TO CUBA BY THE SOCIALIST BLOC 1960-1965

Countries	Credits Million $ U.S.	Annual Interest %	Years for Amortization
U.S.S.R.	100	2.5	12
U.S.S.R.	100	2.5	5
U.S.S.R.	100	2.5	12
China	60	0.0	10
Czechoslovakia	40	2.5	10
Poland	27	2.5	8
Hungary	15	2.5	10
Rumania	15	2.5	From 1966 on
East Germany	10	2.5	10
Bulgaria	6	2.5	10
Total	473		

Sources: Nolff, p. 313; Marshall Goldman, Soviet Foreign Aid, New York: Frederick Praeger, 1967, p. 54; Walters, p. 80.

donor's end. The estimates, then, on the amount of long-term aid actually rendered have varied from $300 million at the end of 1964[2] to $327 million over the same period.[3] A later estimate puts the figure at $345 million by the end of 1965.[4] The differences are not very significant to the main point: long term aid to Cuba from the socialist bloc has been considerable and should be making a major contribution to Cuba's economic development, especially in view of the retarding pressures of the American boycott.

As has already been mentioned, long-term sugar agreements were signed with several of the socialist countries, particularly the Soviet Union. The February, 1960, agreement was renegotiated after the United States suspended the remaining 700,000 of Cuba's 1961 sugar quota in July, 1961. The financing of this and subsequent arrangements was to be 20 percent hard currency and 80 percent barter. In addition, the Soviets agreed not to reexport Cuban sugar, which would tend to spoil the market for the remainder of Cuba's sugar sales. Several other bloc nations agreed to purchase sugar for a planned total of 4.86 million tons annually until 1965. The U.S.S.R. was to purchase the bulk of this amount. The barter arrangements stipulated bloc exports of petroleum, machinery, raw materials, and certain foodstuffs.

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[2] Leo Tansky, "Soviet Foreign Aid to Less Developed Countries," in U. S. Congress, Joint Economic Committee, New Directions in the Soviet Economy, Washington, D. C.: Government Printing Office, 1966, p. 964.

[3] U. S. Department of State, Director of Intelligence and Research, The Communist Economic Offensive Through 1964, Research Memorandum RS13-65, Washington, D. C.: Government Printing Office, 1965, p. 21.

[4] Walters, pp. 74-86.

Several points should be mentioned concerning these arrangements. In the first place, Cuba has generally not been able to meet its export commitments, usually falling considerably below the target due to internal production problems. As for the sugar prices stipulated, in nominal terms the amounts have been generally higher than the expected (and actual) world prices, thereby providing a subsidy to Cuba somewhat similar to Cuba's quota premium via access to the protected American market. However, the nominal figures themselves cannot be relied upon as indicators of the real commodity terms of trade. This is due to the ability of the supplying nations to manipulate the price of their exports so that the real volume of goods received by Cuba from a given amount of earnings may be reduced considerably. Indeed, Castro has on many occasions complained of high Soviet prices, the effect of which is to reduce, if not eliminate, the Cuban sugar subsidy. Unfortunately, all prices and volumes of goods exchanged are not known in the West. Therefore, the real value of aid cannot be readily determined, or perhaps even approximated.

Some prices, however, are available and indicate to some extent the political basis of much of Russia's trade. U.S.S.R. crude oil sales prices to fellow bloc nations have been considerably higher than similar sales to the capitalist countries. Sales to Cuba, however, have been at prices considerably lower than those paid by other bloc states, and only slightly higher than the prices to hard currency purchasers.[5] The essentially economic criteria upon which Soviet oil exports are usually

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[5]See special supplement, Platt's Oilgram, March 3, 1969, pp. 1-2.

based has been ably demonstrated;[6] this being the case, sales at relatively low prices to Cuba, which now has no other alternative suppliers of significance, are obviously politically motivated--an effort to support Cuba's resistance to American economic pressures and to (hopefully) build a showcase of socialism for the rest of Latin American to view. In recent years, however, the Soviet Union has shown increasing reluctance to provide oil supplies, although Cuba has received slowly increasing over-all amounts (still not enough to fill all Cuba's needs), while supplies to other developing nations have tended to be cut back. Since the Soviets have a political and economic commitment to Cuba, it may perhaps be doubted that petroleum sales will be reduced; however, it is likely (as has been the recent experience) that increases will not be commensurate with Cuba's needs.[7] It is of interest to note that the new Soviet-Cuban sugar agreement of January, 1964, which posited steadily increasing annual Soviet sugar purchases to a level of 5 million tons annually (by 1968) through 1970, contained no hard currency provisions. The arrangement is 100 percent barter, thereby even further obscuring the real terms of trade and reducing Cuba's hard currency earnings. In addition, there is no clause specifying that the sugar purchased will not be reexported.

Since Cuba has experienced very significant trade deficits in its bilateral clearing accounts with the bloc, the socialist countries have

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[6]See D. Spencer, "Oil in Soviet Foreign Economic Policy," American Journal of Economics and Sociology, January, 1966.

[7]In January, 1969, Castro announced the further rationing of oil because the U.S.S.R. was not capable of supplying Cuba's expanding needs.

extended additional credits to finance Cuba's balance of payments deficits. These credits also generally bear 2.5 percent interest for an amortization period of 10-12 years. Table 49 summarizes Cuban-bloc trade for the 1959-1965 period. It indicates a total Cuban deficit of approximately $900 million, which has been financed via short- and long-terms credits. Cuba's debt, therefore, has mushroomed, probably reaching over $1 billion by 1965.[8] Both the servicing of this debt in the normal (or an extended) amortization period plus debt repayment seem far beyond Cuba's present capacity to increase its exports. Indeed, it is highly unlikely that any more than token efforts will be taken by Castro with regard to debt servicing and repayment.

The character and relative share of Cuba's imports from the Soviet Union are demonstrated by the following relatively recent figures. In 1967 Cuba ranked fifth in terms of total volumes of goods exported by the Russians. In terms of export of machinery and equipment, Cuba ranked third. The value of complete plants imported from the U.S.S.R. in 1966 was 11.6 million rubles. In 1967 the figure increased to 27.2 million.[9] Considering the great distance between the nations and Cuba's relatively small size, both population-wise and in economic terms, these figures are remarkable and indicate the political factors involved and the degree of the Soviet commitment. This volume is even more remarkable in view of the fact the Soviets have been attempting to reduce their aid to Cuba for a number of years.

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[8] Boorstein,, p. 192.

[9] Vneshnyaya Torgovlya Soyusa SSR za 1967 God: Statistichesdii Obzor, Moscow: Ize. Mezhdunarduye Otnosheniya, 1968, pp. 62-63.

TABLE 49

CUBA'S TRADE WITH THE SOCIALIST BLOC
1959-1965

Nations	1959	1960	1961	1962	1963	1964	1965	Cumulative Balance
				(millions of dollars)				
U.S.S.R.								
Cuban Imports	--	80.2	288.8	411.4	460.9	411.4	426.4	
Cuban Exports	12.9	103.5	300.9	220.4	163.9	274.9	322.4	
Balance	+12.9	+23.3	+12.1	-191.0	-297.0	-136.5	-104.0	-680.2
China								
Cuban Imports	--	10.3	97.5	89.8	90.8	106.3	122.8	
Cuban Exports	--	32.1	91.6	89.0	72.7	81.4	100.2	
Balance	--	+21.8	-5.9	-0.8	-18.1	-24.9	-22.6	-50.5
Other Bloc Nations								
Cuban Imports	1.9	18.1	98.8	125.3	147.1	150.9	103.0	
Cuban Exports	1.0	14.3	63.2	112.2	126.6	57.9	108.4	
Balance	-0.9	-3.8	-35.6	-13.1	-20.5	-93.0	+5.4	-161.5
Total Yearly Balance with Bloc	+12.0	+41.3	-29.4	-204.9	-335.6	-254.4	-121.2	-892.2[a]

[a]This figure is at variance with Table 21, somewhat understating the total deficit since several years are not adjusted for transport and related costs. Table 21's figures yield a bloc deficit of approximately $913.8 million through 1965 and an added $200 million bloc deficit for 1966.

Source: Department of Economic and Social Affairs, Yearbook of International Trade Statistics 1965, New York: United Nations, 1967, p. 208; Economic Survey of Latin America 1963, p. 273; and International Monetary Fund--International Bank for Reconstruction and Development, Direction of Trade: Annual 1963-1967, Washington, D. C., 1967, p. 377.

In conclusion, Soviet and bloc aid has been very substantial. Since it is highly unlikely that Cuba's future export increases will result in favorable Cuban balances with the socialist countries, it appears that Cuba's cumulative import surplus will be tantamount to a grant rather than long- or short-term loans.

APPENDIX B

BOYCOTT OFFICE QUESTIONNAIRE

Gentlemen:

We wish to inform you that we have acquired reliable information to the effect that you are the agents of the _____ company of Israel.

In this regard, we believe that it is of mutual interest to both of us to draw your attention to the fact that the Arab countries are still in a state of war with Israel. Therefore, as a measure of self-defense and with the view to safeguarding the rights and the vital interests of the Arabs of Palestine, the Arab countries strictly adhere to a set of boycott rules directed at Israel. In brief, these rules prohibit Arabs from entering into any sort of dealings with Israeli natural or artificial persons. They also prohibit dealings with foreign natural or artificial persons who contribute to the promotion of Israeli economy of war potential through any of the deeds defined by the Boycott Law and Regulations or principles. Violation of these regulations entails the boycott of violators in all Arab countries.

However, before any action is taken against your firm, and intending to demonstrate the good faith of the Arab countries, we find it beneficial for you, as well as for us, to contact you directly so that you may inform us of the nature of the dealings of your firm with Israel. This will have to be done in the form of a declaration duly signed before the competent governmental authorities and should also bear a final authentication to the signature of the authorized representative of your firm appended thereto by the closest Consulate or Diplomatic Mission of any Arab country. The required declaration will have to contain complete answers to the following questions:

1. Do you have any branch, office or agency in Israel? In case you have, please state the nature of its activity.

2. Do you act as general agents of Israeli companies? Particularly the _____ company of Israel.

3. Have you ever owned shares in Israeli firms or businesses?

4. Is your firm or any of its Directors a member of any foreign-Israeli Chamber of Commerce in Israel or abroad?

If your answer is in the positive, you will then be kindly requested to present the following:

a. An official copy of your agency agreement with the said company or any other Israeli company, provided that it should be duly certified by your Chamber of Commerce in shipping and authenticated by your competent governmental authorities and by any Arab Consulate in your area of activity.

b. Documentation to the effect that you have terminated the agency agreement and showing the consent of the Israeli side to such termination. Such documents will have to be duly certified as shown in the above para.

c. An undertaking to the effect that you will never represent Israeli companies in the future.

We look forward to receiving your reply in the above mentioned form without a maximum period not to exceed three months from the date of this letter.

Finally, we do hope that you will extend sympathetic understanding of the compelling considerations which render these measures mandatory. It is also our sincere hope that you will find it appropriate to maintain your commercial relations with the Arab countries.

Very truly yours,

Mohammed Mahmoud Mahgoub

Commissioner General,

Central Office for the Boycott of Israel

RESOLUTION OF THE ARAB ECONOMIC COUNCIL
May 30, 1962[1]

To notify the member states of the European Common Market that the Arab states--in case of Israeli association with EEC or in case any assistance is given to Israel in any way whereby it may take advantage of the Agreement [the Treaty of Rome]--will reconsider the structure of their foreign trade with the member states of EEC as well as the petroleum policy toward the same group. The Arab states will not allow their own resources to be used to bolster the Israeli economy;

To request the diplomatic missions of the Arab states to EEC members to explore the possible means of exerting pressure on the governments of these states with the object of thwarting Israeli association with EEC and of preventing any advantages that may accrue to Israel from the Treaty [of Rome] in accordance with the decision of the Arab League Council of April 3, 1962;

To lay a plan to establish closer relations between the Arab states and the African countries, which are a primary field in the future economic struggle between the Arab states and Israel. The measures that could be taken in this regard would be organized financial, technical, and educational aid to the African states, whether by individual Arab states or by the League.

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[1]Cited in Ramazani, p. 90.

QUESTIONNAIRE LETTER OF TRANSMITTAL

UNIVERSITY OF CHATTANOOGA
CHATTANOOGA, TENNESSEE 37403

Department of Economics
and Business Administration

Gentlemen:

I am presently conducting research on the economic impact and effectiveness of international boycotts, the Arab boycott of Israel being one of the three I am studying. According to my research, your firm presently is, or once was, on the blacklist put out by the offices of the Arab League Boycott of Israel Committee. It would be of the greatest help to me if someone in your firm knowledgeable in the particulars of the boycott and its effect upon your operations would fill out the enclosed form.

It is not necessary for the name of your business to be listed. The enclosed questionnaire is essentially a statistical survey. It has been sent to over 200 businesses to ascertain some general information. As such, the reactions of particular firms or the names of the firms are not relevant. It may, however, be helpful to me to have the name of your business and the officer completing the form in the event that some of the information given is either unclear, requires elaboration, or raises any point which might deserve special consideration in my research. This, of course, is optional inasmuch as I am first and foremost interested in obtaining honest answers, some of which may not be forthcoming without complete anonymity.

This research is being conducted as a part of my doctoral dissertation. As such, it is independent of any political or institutional affiliations. The findings will be listed in such a fashion that no firm or organization can be identified. The results of this questionnaire and the conclusions arrived at will appear in my dissertation, which is open to public scrutiny via the University of Florida Library (Gainesville, Fla.), and University Microfilms, Ann Arbor, Michigan. I will be happy to provide you with the results of this study, if so requested.

Thank you in advance for your cooperation in this survey. If you have any questions, suggestions, or comments concerning this project, please feel free to contact me.

Yours truly

Donald L. Losman
Assistant Professor

QUESTIONNAIRE ON ARAB BOYCOTT

1. Your business would fall into which of the following categories? (Check one)
   ( )A. Manufacturing
   ( )B. Banking, finance, insurance, and services (other than transport)
   ( )C. Importing, exporting, shipping
   ( )D. Other--please specify ______________________________

2. Why was your firm blacklisted?
   ( )A. Commercial dealings with Israel, i.e., the primary boycott
   ( )B. Commercial dealings with non-Israeli busines (es) which were blacklisted, i.e., the secondary boycott
   ( )C. Refusal to complete and return the questionnaires sent out by the Boycott Committee
   ( )D. Employment of Jewish personnel or company officers, or any actively engaged in Zionist activities
   ( )E. Company does not know why it was boycotted
   ( )F. Other--please specify

3. In what manner was your business affected by the boycott? (Check more than one if applicable)
   I. Loss of Customers:
      ( )A. Both Arab and non-Arab customers
      ( )B. Arab customers only
      ( )C. Non-Arab customers only
   II. Loss of Suppliers:
      ( )A. Both Arab and non-Arab suppliers
      ( )B. Arab suppliers only
      ( )C. Non-Arab suppliers only
   III. ( ) Your business was unaffected, even though blacklisted (if this choice is taken, see question 3A below)
   IV. ( ) Other--please specify ______________________________
   ____

3A. If your business was not affected by the boycott, despite black-listing, why not?
   ( )A. You had little, if any dealings with Arab firms (or peoples) or with non-Arab firms which had been blacklisted (the secondary boycott)
   ( )B. A failure of the boycotting agency to follow through with the blacklisting and pursue effective enforcement
   ( )C. Other--please explain ______________________________
   ____

4. Approximately how much were your sales to Arabs reduced? (answer, if applicable)
   ( )A. Under 5% ( )B. 5%-10% ( )C. 11%-25% ( )D. 26%-50%
   ( )E. Over 50%

5. Approximately how much were your sales to non-Arabs reduced? (effect of secondary boycott)
( )A. Under 5% ( )B. 5%-10% ( )C. 11%-25% ( )D. 26%-50%
( )E. Over 50%

6. If sources of supply were lost, indicate in what manner and to what degree your operations were affected. ______________________________

____

____

7. As an overall evaluation of the effect of the boycott upon your normal business operations, indicate the extent to which you were affected:
( )A. No effect--operations continued as normal
( )B. Insignificant--only mild changes had to be taken in policies and operations
( )C. Moderately significant--experienced retarding factors in major company operations, sales territories, etc., to which accommodation and adjustments had to be made
( )D. Highly significant--boycott proved highly disruptive to your normal operations

8. If you have any suggestions or comments pertinent to this study, please add them here:

____

____

____

Name of company and person completing this form (optional)

____

Thank you very much for your cooperation.

Donald L. Losman
Assistant Professor of Economics
University of Chattanooga

BOYCOTT QUESTIONNAIRE: STATISTICAL SUMMARY

Questionnaires mailed 101

Responses 39
(Of this number are included two firms which noted that they felt it imprudent to discuss the boycott and two which were mistakenly blacklisted and removed shortly thereafter)

1.*	A. 23	B. 6	C. 9	D. --		
2.*	A. 21	B. 1	C. 5	D. 5	E. 4	F. 5
3.	I.A. 3 B. 13 C. 1	II.A. -- B. -- C. --	III. 18	IV. --		
3A.*	A. 17	B. 3	C. --			
4.*	A. 3	B. 1	C. --	D. --	E. 8	
5.*	A. 2	B. --	C. --	D. 1	E. 2	
6.	-------					
7.*	A. 20	B. 7	C. 3	D. 3		

*Totals may not exactly correspond due to omissions on some questionnaires and multiple answers on others.

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BIOGRAPHICAL SKETCH

Donald Lee Losman was born July 15, 1942, at Pittsburgh, Pennsylvania. In 1959 he was graduated from Miami Beach Senior High School and entered the University of Florida later that year. He received his Bachelor of Science degree (1963) and his Master of Arts degree (1964) from that institution.

For a little short of one year Mr. Losman was a Staff Consultant for First Research Corporation, Miami, Florida. In 1965 he went to Baton Rouge, Louisiana, where he both taught and studied economics at Louisiana State University. The following year he took a position at the University of Chattanooga in the department of economics.

During his years at Florida Mr. Losman played on the varsity and freshman tennis teams, was a member and officer in Pi Lambda Phi social fraternity, and a member of several campus organizations and honoraries. He was the recipient of graduate and/or teaching assistantships both at the University of Florida and at Louisiana State. Mr. Losman also studied at The University of Tennessee while teaching in Chattanooga. He is the author of one journal article and has three others which will soon be published.

Donald Lee Losman is married to the former Barbara Gail Nesler. They have a daughter, Victoria. The family now resides in Chattanooga, Tennessee, where Mr. Losman will teach economics at The University of Tennessee at Chattanooga.

This dissertation was prepared under the direction of the chairman of the candidate's supervisory committee and has been approved by all members of that committee. It was submitted to the Dean of the College of Business Administration and to the Graduate Council, and was approved as partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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